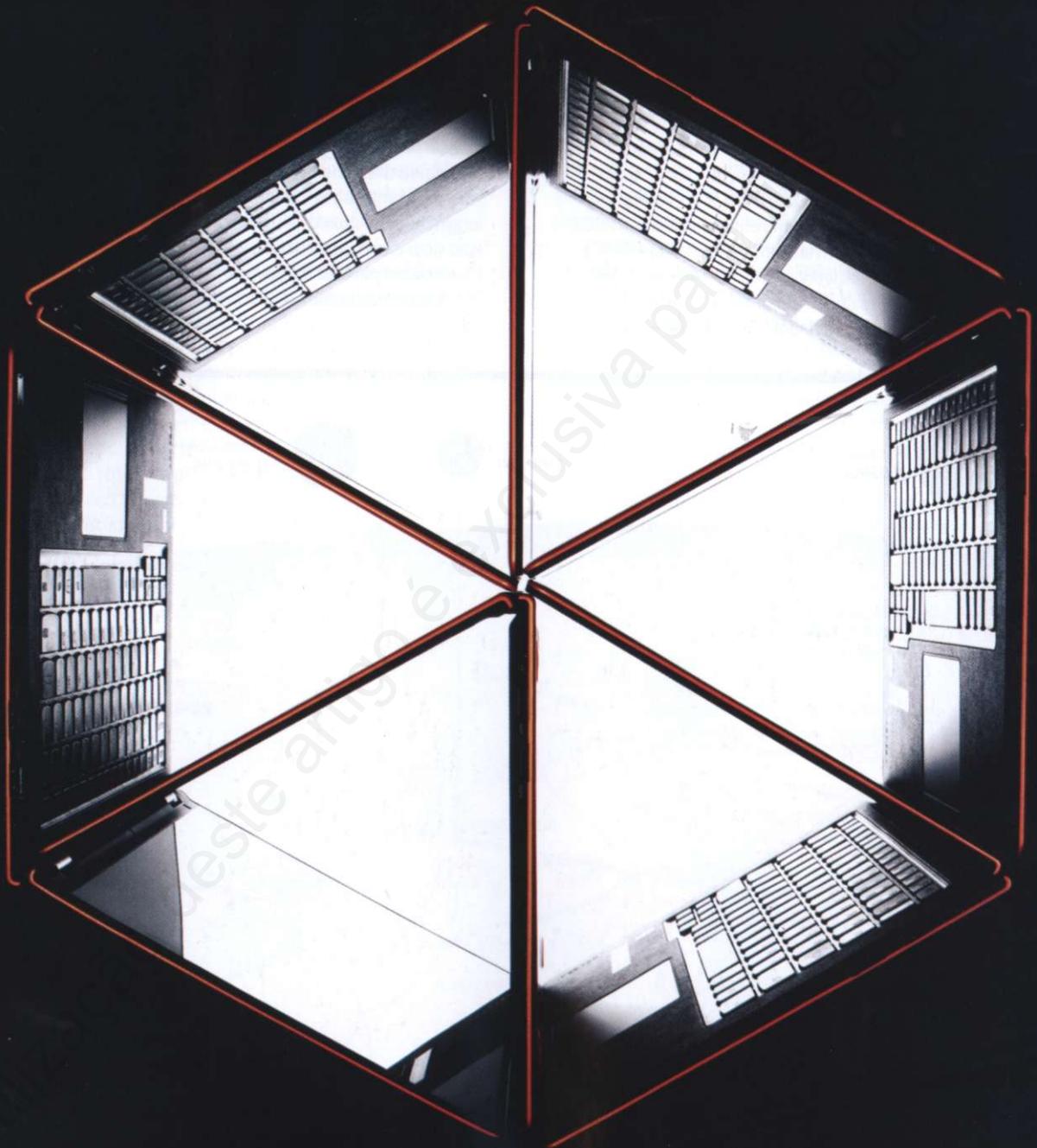


CAN LENOVO DO IT?



The computer maker is poised to become the planet's No. 1 PC seller. Now CEO **YUANQING YANG** is trying to build a global brand—and outmaneuver Apple and Samsung.

GLOBAL FORUM

BY MIGUEL HELFT



CEO Yang has high hopes for Lenovo's products, such as the Yoga (opposite page), a laptop whose screen can flip over, turning the device into a tablet.



YUANQIANG, the CEO of Lenovo, the giant Chinese computer maker, lives on the north end of Beijing in a gated community of McMansions and expansive lawns that seems a world away from the frenetic bustle of the capital city. Yang's house, built on the shores of a lake, is more French chateau than suburban abode and dwarfs the other homes in the development. One of his deputies called it a mini-Versailles.

Once a year the 48-year-old Yang, who is known as YY, opens his house to a most unusual corporate gathering — a lavish banquet for his top executives. This year's affair in the spring is a seven-course feast of Chinese and Western delicacies paired with an assortment of premium wines, including a Petrus that was bottled before many of the executives in the room were born. As a serving staff worthy of a Downton Abbey reception brings out dishes and refills glasses, the 18 guests embark on a company tradition. One by one, they stand up, wineglass in hand, to set a goal for their unit — and to toast it. We'll be No. 1 in smartphones in a large Asian country. Bottoms up. We'll beat HP here, BlackBerry there, and Apple — yes, Apple — over there. Bottoms up. We'll boost margins, ramp up



EVEN WITHOUT A FEW DRINKS IN THEM, LENOVO'S
TOP EXECUTIVES ARE A COCKSURE CREW THESE DAYS,
AND FOR GOOD REASON.

production, and expand our retail network. Bottoms up.

The tradition began as something of a lighthearted drinking game a few years ago but took on a more serious air when Gina Qiao, the head of human resources and one of two women in the company's top ranks, sent an e-mail the next morning reminding each executive of the promises he had made. Those who have played the game a few times know that going early is an advantage, as the targets tend to get more aggressive with every toast. And when those targets are not outlandish enough, a chorus of boisterous protests erupts. Underneath the good-natured hazing among the Chinese and Western executives, there's an unmistakable takeaway: This is a hypercompetitive group of people egging on one another to conquer the tech world.

Yang, who is taller than most of his colleagues, presides over the festivities with regal composure, interceding from time to time, perhaps to needle an executive over a missed target from an earlier banquet.

As he moved up the ranks at Lenovo, Yang emerged as a forward-looking global leader who pushed his board to make a gutsy gamble that transformed the company and ultimately the industry: the 2005 acquisition of IBM's money-losing PC business. The result is a company unlike any other in China, and perhaps anywhere. It has dual headquarters in Beijing and North Carolina, where the IBM business was based, and is far more global than most Western multinationals. Its top 14 executives hail from seven countries, and following acquisitions in Germany, Brazil, and Japan, Lenovo's manufacturing and R&D span the globe. As Yang rises to announce his own goals, the room quiets down expectantly. Wineglass in hand, Yang says he wants to help everyone achieve his own target. Bottoms up.

Even without a few drinks in them, Lenovo's top executives are a cocksure crew these days, and for good reason: The company's contrarian bet to double down on the PC business has paid off handsomely. In recent years



A different kind of Chinese company: Senior executives include [from left, home countries in red] Xudong Chen, president, Lenovo China [China]; David Roman, chief marketing officer [Australia]; Gerry Smith, president, Americas [U.S.]; Milko Van Duijl, president, Asia Pacific [Netherlands]; Xiaoyan Wang, CIO [China]; Gianfranco Lanci, president, EMEA [Italy]; Yuanqing Yang, chairman and CEO [China]; Peter Hortensius, president Think Business Group [Canada]; Liu Jun, president, Lenovo Business Group [China]; Waiming Wong, CFO [U.K.]; George He, president and CTO [China]; Gina Qiao, SVP, human resources [China]; Qingtong Zhou, VP, strategy and planning [China]; Jay Clemens, general counsel [U.S.].

Lenovo invested heavily in R&D and acquisitions. It beefed up its own network of factories, allowing the company to bring innovations to market more quickly than competitors that outsource most of their manufacturing. As a result, Lenovo's growth has outpaced the industry's for the past 16 quarters, and it has tripled in size since the IBM deal to more than \$33 billion in sales. This year it's on track to edge out HP to become the world's No. 1 PC maker. To be sure, the PC business isn't the juggernaut it used to be. Indeed, the industry experienced a 14% drop in sales in the first quarter, its biggest decline ever. Even so, Lenovo is holding its ground, according to research firm IDC. In the U.S., the world's largest PC market, its business grew 13% in the most recent quar-

ter, in part because of the popularity of products like the Yoga, a stylish ultrabook that doubles as a tablet. Where analysts see an industry destined to shrink further, Yang, whose company accounts for about 15% of global PC sales, sees 85 points of market share to go after. The "PC definitely will not die," he says in an interview at Lenovo's Beijing headquarters. Yang, who relishes the ongoing disarray at HP and Dell, says what *will* die are some of his rivals: "Only a few players can survive."

Yang and his team are just getting started. They see the quest for PC domination largely as a mission accomplished. Today Lenovo is laser-focused on a more audacious and difficult goal: taking on Samsung and Apple in smartphones and tablets. "We must attack these areas

vigorously, effectively, and efficiently everywhere," Yang wrote in a private memo to the company's rank and file that *Fortune* reviewed.

The company is off to a good start. Lenovo's handset business is less than two years old, but the company is already the No. 2 seller of smartphones in China, a market that is the world's largest as well as one of the most competitive. Mobile devices now account for about 11% of Lenovo's revenue. The company is hoping to replicate the success it had in its home turf in other rapidly growing markets, like India and Indonesia — and eventually in the U.S. (Thanks to its early success with handsets, Lenovo has emerged as the world's No. 3 seller of "smart connected devices," a category that combines PCs, smartphones, and tablets, behind Samsung and Apple, according to IDC.)

Such unabashed global ambitions come at a critical time, not only for Lenovo, but also for China. Just as Lenovo is looking for new ways to grow, China, too, is realizing that it can no longer thrive simply as the world's factory. It is counting on giants like Lenovo to become world-class innovators and reach consumers across the globe, as their Japanese and Korean counterparts have done before. With its scale, investments, and fiercely competitive international management team, Lenovo may well become China's first global consumer brand. Yang doesn't doubt it. In the memo he wrote that transforming Lenovo into a juggernaut that can go toe to toe with the world's top mobile-computing giants will be one of its greatest challenges. Then he added, "When we are successful, it will be one of our greatest victories."

ONLY ABOUT 10 MILES Separate the bustling electronics marketplace in Zhongguancun — one of Beijing's top destinations to buy a tech gadget — and the Indigo mall in Wangjing, a residential neighborhood in the northeast of the city. As retail experiences go, however, the two places are worlds apart, and they're a good illustration of where Lenovo has been and where it is hoping to go. The Zhongguancun locale, known as a PC mall, is a crowded labyrinth of scrappy storefronts where merchants bark at passersby. The mall houses more than 15 Lenovo stores on the first three floors alone.



Yang shows off Lenovo's ThinkPad Helix, with its detachable keyboard.

In stark contrast, the Indigo mall is a gleaming modern building of curved glass. Upscale Chinese patrons peruse Adidas, H&M, and Sephora shops. The Lenovo store, in a prime location on the third floor, feels like the child of a union between a Best Buy and an Apple Store. Long white tables topped in blond wood display the hottest of Lenovo's products: ultrathin laptops, smartphones in various shapes and sizes, tablets, and even some Internet-connected TVs. Visitors are encouraged to try out the devices. Near the cash registers, employees troubleshoot customers' problems, much like at Apple's famous Genius Bars. There's even a trio of low-slung tables and stools with tablets and PCs loaded with games, where parents can park their kids while they shop.

Lenovo is not about to give up its position selling low-priced computers to the masses in places like

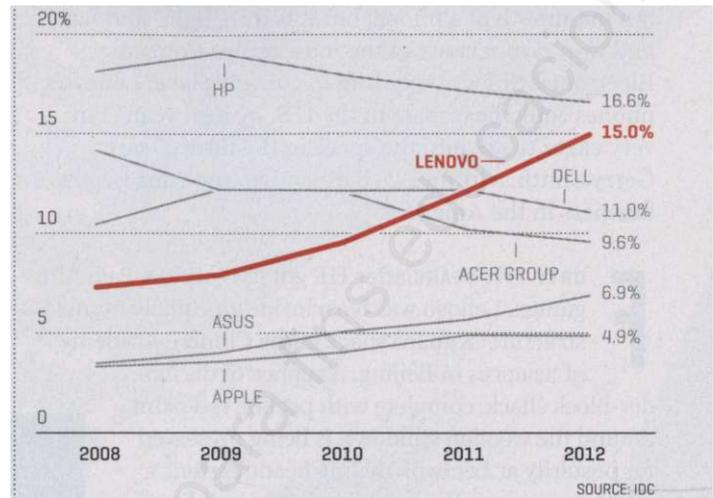
NEW TOP DOG LENOVO HAS SEEN ITS GLOBAL MARKET SHARE RISE AND IS POISED TO BECOME THE NO. 1 SELLER OF PCs.

Zhongguancun. For years the company has pursued what it calls a "protect and attack" strategy, and the mass-market PC business is one area it is determined to protect. Indeed, its strategy to put a Lenovo store within 50 kilometers of most Chinese consumers is largely responsible for its continued growth there. A staggering 30,000 Lenovo franchises can now be found in cities, townships, and villages across China, up from just 6,000 in 2010. (Apple has eight stores in the country.) Lenovo is exporting that retail strategy to other emerging markets, where it sees plenty of room to grow, as typically less than 20% of people own a PC.

But the Indigo mall store falls clearly in Lenovo's attack column. Along with an even bigger flagship store slated to open this summer near Tiananmen Square, it speaks of Lenovo's aspirations globally. Lenovo is busy remaking itself in both its product lineup and its image to lure upper-class Chinese and Indian consumers, as well as brand-conscious shoppers from Portland to Paris. It's hoping to be mentioned in the same breath as Apple or Samsung, but it has a ways to go. "Lenovo doesn't have much of a personality in the market," admits David Roman, Lenovo's chief marketing officer.

That's not to say that Roman is starting from scratch. Lenovo's ThinkPad line, with IBM's original iconic black-box design at its heart, has been synonymous with innovation for more than 20 years, and it commands a premium among corporate buyers in developed countries. (Indeed, in many places the ThinkPad brand is better known than Lenovo itself) Roman's job is to infuse the rest of Lenovo's products with the same kind of cachet that the ThinkPad name has with IT buyers. His efforts began a couple of years ago, with a campaign based on a new tag line: "For those who do."

If the slogan seems tinged with Apple envy, well, that's because it is. (Roman used to work for HP and Apple, by the way.) A 2011 television spot that exalted those "who tinker, who build, who create" was reminiscent of Apple's famous campaign glorifying "crazy ones," "misfits," and "troublemakers," which featured icons like Albert Einstein and Bob Dylan. Other efforts, including an action-packed spot produced by a director of James Bond movies and a partnership with the National Football League, have helped Lenovo cement the notion that it is a brand worthy of the hip and urbane. Surveys show that Lenovo's brand consideration has risen from 10th to fourth in the U.S. in just two years.



Part of Roman's challenge, however, is that Lenovo's go-to market strategy is somewhat at odds with its brand aspirations. As Apple has shown with its sparse product line, iconic brands benefit from simplicity. In contrast, Lenovo has succeeded by offering products to fill every possible market niche. And executives are not about to change course. "I'm not interested in trying to be Apple," says Peter Hortensius, a veteran of IBM who now runs the Think Business Group, which is responsible for PCs and servers aimed at business customers. "I'm interested in trying to be Lenovo. We'll continue to operate consistently with what's worked."

The one critical area where Lenovo is a no-show, for now, is the smartphone business in the U.S. and other developed countries. It's a controversial strategy that puts the company at risk of being a perennial also-ran in key markets. But Lenovo executives insist that focusing first on developing countries, where market dynamics are similar to China's, makes sense. After reaching profitability with smartphones in China, where the company released nearly two-dozen models that typically sell for far less than comparable Samsung phones, Lenovo last year brought its handsets to India, Indonesia, the Philippines, Vietnam, and Russia. By the end of this year it plans to be in 16 countries.

Roman says he wants the Lenovo brand to be better known in the U.S. before he releases a phone there, in part to avoid the fate of other companies, like HTC, that have performed inconsistently. Lenovo's phones, however, are looking ever more like the kind that could appeal to American consumers, at least those yearning

for big screens. At inches, the just-released K900 is a mammoth of a phone, but it is thin, light, and fast, and won rave reviews at the most recent Consumer Electronics Show. According to current plans, Lenovo's phones could be on sale in the U.S. by next year. "I'm very eager to get into the space in the future," says Gerry Smith, a former Dell executive who runs Lenovo's business in the Americas.

FORTY-FIVE YEARS after HP got its start in a Palo Alto garage, Lenovo was born inside an equally humble structure: a guard shack at the Chinese Academy of Sciences in Beijing. A replica of the cinder-block shack, complete with peeling red paint around the wooden windows, is being preserved for posterity at Lenovo's Beijing headquarters, a modern campus of concrete and glass buildings separated by pools of water. It's in that shack that in 1984 Liu Chuanzhi, an engineer at the academy, founded what would become Lenovo, with nine other colleagues. In addition to letting the group use the shack, the academy pitched in with a \$25,000 startup loan.

The company, which in its early years was named Legend, first developed a technology that allowed PCs to be operated by Chinese-language users and later began reselling foreign-made PCs in China.

In 1990 it started to build its own machines. The following year, Liu, who remains chairman of Legend Holdings, a conglomerate that still has a stake in Lenovo, appointed Yang, then 29, to run the PC unit. Yang, who grew up poor in Hefei, a city in eastern China, during the Cultural Revolution, relentlessly pushed his team to innovate more quickly than competitors. Under his leadership, Lenovo became the first PC maker to introduce Pentium-based computers in China, leading to a dramatic rise in sales. By 1997 the company was No. 1 in its home market, a position it has held since.

But Liu had always dreamed of expanding beyond China's borders, and shortly after the company renamed itself Lenovo—"Le" is a vestige of Legend and "novo" comes from the Latin for "new"—his appointed successor, Yang, championed a deal that seemed as improbable as it was audacious: The takeover of IBM's global PC unit, a business three times bigger than Lenovo's at the time. The takeover was so unexpected that when rumors of its talks with IBM surfaced, the *New York Times* ran a story that began "Who?" Those involved in the deal saw the logic. "It was very obvious that IBM was not invest-



A Lenovo store at the Indigo mall in Wangjing, a residential neighborhood in northeast Beijing, feels like a mashup of Best Buy and an Apple Store.

ing in the business, and we all knew where that eventually leads," says Hortensius, who was at IBM at the time. "When someone comes along that is going to breathe new life in the business, you listen."

After a rocky start made more difficult by cultural differences and the financial crisis, the Lenovo-IBM deal, for \$1.75 billion, turned into a smashing success. Much of the credit goes to decisions made by Yang to take a back seat initially, leaving U.S.-based executives to run the firm, while he took the chairman post. He relocated to North Carolina for a few years to learn English, which he decreed would be the official language at Lenovo, and to immerse himself in U.S. management styles. He also sent several of his top executives for long stints to the U.S.

At the same time, Lenovo benefited from its Chinese cultural heritage, in particular the propensity to focus on long-term goals. Lenovo approaches every new market with a similar strategy: pricing products aggressively at first, sacrificing margins. Executives are expected to deliver profitability only after market share gets to double digits. The risky approach has largely paid off. "The company has surprised me over and over," says Alberto Moel, an analyst with Sanford Bernstein. Its continued growth amid the industry's disarray, Moel says, "is a major achievement." But Moel warns that expanding margins, which at 2.5% are about half those of Dell's and HP's PC units, will be harder than management thinks. Such concerns have weighed on the stock, which has been stuck in a narrow range for the past year (its ADRs, now at \$18, are down from \$23 a share). With net income of \$575 million over the past four quarters, Lenovo has a market capitalization of about \$9 billion.

Analysts say Lenovo, with 27,000 employees world-

wide, operates by Western standards of openness and transparency. Unlike some other Chinese tech companies that have been blocked from acquiring or expanding operations in the U.S., Lenovo has been cleared by regulators to buy American companies on three occasions. It has sold tens of thousands of PCs to federal agencies. "It probably should not get tarred and feathered like other Chinese companies," says Denis Simon, an expert on the Chinese tech industry. But, he adds, "they always face the risk of being tainted in guilt by association."



AS COMPETITORS ARE FRETTING ABOUT THE END OF THE PC ERA, LENOVO IS BUSY TRYING TO REDEFINE IT.

YANG TAKES five Lenovo devices and arranges them in two neat piles in front of him. Pile 1 consists of a smartphone, a 10-inch tablet and a laptop; Pile 2 includes a large-screen smartphone and a thin laptop that converts into a tablet. Each bundle, Yang says, covers the needs of most knowledge workers and consumers in different ways: a device that fits in the pocket, a great e-reading and media-consumption experience, and the frill power of a PC. "Both are possible," says Yang, who prefers the two-device option in Pile 2.

The little exercise says a lot about Lenovo's contrarian view of the future. The conventional wisdom that tablets are destined to cannibalize PCs is wrong, Yang says. To be sure, tablets are important and Lenovo is determined to compete aggressively in the category. And perhaps a surge in tablet buying is leading to the current decline in PC sales, as consumers delay replacing older machines. But over time, standalone tablets are likely to be squeezed between large-screen phones and convertible notebooks. "The lines are blurring," says Hortensius, the IBM veteran. "Ten-inch tablets are becoming more like notebooks, and notebooks are becoming more like tablets." No one has invested in that blurring of the lines more heavily than Lenovo. While most of its rivals sell a notebook that converts into a tablet, Lenovo has four, and more in the pipeline.

The bet has done wonders for Lenovo. The Yoga, its flagship convertible, launched in time for the holiday season and quickly became the industry's bestselling ultrabook, says Tom Kilroy, executive vice president and

general manager of Intel's sales and marketing group. "The Yoga is a stunning feat of design and innovation," Kilroy adds. It captured nearly half the market for Windows 8 convertibles, according to Lenovo's own research. "Every unit I made sold," says Smith, the Americas head who until recently ran Lenovo's supply chain. "We could have sold a lot more."

For a company that had never sold a high-end laptop to American consumers, the Yoga represents a major breakthrough. Lenovo is now trying to wow upscale consumers with a one-of-a-kind computer called the Horizon. A stylish 27-inch all-in-one desktop, it easily flattens to become a "table" PC. Thanks to special multitouch software that senses as many as 10 fingers, it's designed to be used simultaneously by several people. Yang calls it an "interpersonal PC" and hopes it will encourage people, who are increasingly separated by their digital devices, to socialize around a shared screen. Unlike earlier table-PC prototypes, which cost a small fortune, the Horizon starts at \$1,700 and is competitive with other high-end desktops. While it may never become a top seller, it shows that as competitors are fretting about the end of the PC era, Lenovo is busy trying to redefine it.

Yang clearly has grand plans for Lenovo, but they may pale in comparison to the ambitions China has for its brightest global tech star. Shortly after Lenovo acquired the IBM business, then-Premier Wen Jiabao is said to have told Yang during a visit to Lenovo's Beijing offices, "You carry the hopes of China on your shoulders." Wen's words continue to carry weight today as China looks to its homegrown companies to show that the country is capable of world-class innovation and building a global consumer brand.

Indeed, the "lack of personality" that bedevils marketing chief Roman may prove to be an asset as he tries to sell Lenovo around the world. In Brazil more than 43,000 youngsters converged on a Lenovo Facebook game, trying to "steal" a virtual Yoga from one another. In Japan, Hidetoshi Nakata, the country's most beloved soccer star, pitches the company's PCs to millions. In India, Lenovo is the top choice among people considering a PC purchase. It isn't clear whether those consumers know—or care—that Lenovo is a China-based company. Looking at Lenovo's reach and its multinational management team, perhaps the lesson for Chinese companies seeking to be global brands is to, well, be more global. **IB**