



## Lenovo Chairman Liu Chuanzhi: "We Have Decided to Refocus on PCs"

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*Lenovo Group - or Legend Group, as the company used to be called - has long been regarded as one of China's best-known business success stories. Having begun life in 1984 as a distributor of foreign PCs, the company has become China's (and Asia's) largest computer maker. As strong economic growth during the past decades spurred demand for PCs in China, Legend grew into an IT giant with more than \$3 billion in annual revenues, and its chairman, Liu Chuanzhi, was hailed as one of China's top business leaders.*



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*Recently, though, Lenovo Group has stumbled a little. Aggressive forays to diversify into areas such as IT services and contract manufacturing of motherboards failed to pay off, hurting Lenovo's profitability. At the same time, intense competition from international rivals caused Lenovo's market share in China to fall. In an effort to correct course, Lenovo Group has returned to its core PC business - and the initial results have been encouraging. On August 11, the company announced that revenues in the first quarter of fiscal 2005 went up 10% to HK\$5.8 billion (\$743 million).*

*Liu Chuanzhi recently spoke with Knowledge@Wharton about Lenovo's business challenges, lessons from past experiences, and plans for the future. Among the interviewers were Wharton management professor [Michael Useem](#), director of the school's [Center for Leadership and Change Management](#); Liang Neng, a professor of management and director of the Executive MBA program at [China Europe International Business School \(CEIBS\)](#); and Joseph Wan, a Hong Kong-based manager in the [Boston Consulting Group's](#) technology and communications practice.*

**Useem:** You wanted to become a fighter pilot, but instead you became an entrepreneur and the builder of a great company. I'd like to focus my question on your decision in 1984 to start Legend Group. What was your thinking at the time when you decided to start the company?

**Liu:** Before 1984 I worked for the Chinese Academy of Sciences. At that time I was in a depressed mood, because I thought that my personal goals would not be realized in the academy. The Academy pays more attention to S&T research results, but we could not commercialize them. Before that, the period during the Cultural Revolution was a time of chaos for China. For a long time, I was pessimistic and could not find a way to realize my goals and values. But in 1984, as the process of market reforms began in China, it became possible to develop commercial products and I was able to realize my personal goals. However, at the time when we launched the company everything was unforeseeable. I did not have a specific or clear plan.

**Knowledge@Wharton:** Could you explain Legend's globalization strategy? How does the company intend to go about building an international operation from a Chinese one?

**Liu:** Legend has revenues of more than \$3 billion and a 27% market share in China. We want Legend to become an international company with revenues of more than \$10 billion. Our company can achieve that goal in two ways. The first is through globalization, which means we sell our PCs in other parts of the

world. The second is through diversification and going beyond the IT industry.

In the past three years we set up a roadmap to achieve diversification. However, things did not go well with our plans. We were too anxious to achieve our goals, we did not think through our plans clearly, and we did not succeed. As a result, for the next three years we have developed a new strategy. We will focus on the PC industry first. Of course, this is just a three-year plan -- we do not intend to focus just on PCs forever. We are now working on plans for globalization as well as new ways of diversification, but we haven't reached any conclusion yet.

**Wan:** I have two questions. First, many Chinese companies today are looking at globalization. What would you recommend that they do, given what you have learned from your experience? My second question is about the domestic market. Legend obviously has performed very well historically domestically, but looking at some recent developments, it appears that Legend may be losing its edge in the domestic market. What is the company doing to maintain its competitive edge?

**Liu:** For your first question, there are companies with different ways. Some companies, like Haier (a white goods producer) are as large as Legend. In order to keep growing and satisfying their shareholders by increasing profits, these companies have to go international. However, some other companies are much smaller. They face a large, standardized market when they venture abroad, and they have to compete with their rivals in areas, while they are still far behind in management, finance and human resources. In order to win, these companies have to be very careful and cautious.

When some companies in Taiwan wanted to go global, their strategy was to go the OEM route. I believe many of these companies adopted this approach because Taiwan is a very small province, and these companies did not have well-known brands. But unlike such companies, Chinese companies have a large local market, so they can establish their brands in China before they go overseas. Though companies in different places may take different routes because of their specific situation, they have multiple choices in going global.

Regarding the domestic market, we have seen that recently Legend's market share has been declining. The main reason is that our strategy for the past three years was not so well set up. Three years ago, Legend's market share was about 30%. In order to keep growing, the company decided to diversify into multiple sectors. I don't think the top management team was well prepared for that. Their attention was distracted from the PC business, which is our core business.

In addition, the domestic market has been changing. In the past, most of our orders came from government institutions or state owned enterprises. Prescriptively they had to spend all their budgets before the end of each year. As a result, it was the best business season for the company by the end of each year. However, now there are tremendous private small- and medium-size companies in the market as well as foreign companies in China. Their purchasing style is different. Our customers have changed dramatically.

In view of these developments, this year Legend carried out a thorough and careful review of our plans in the past three years. We have decided to retreat from diversification and refocus on the PC business. We have promised our shareholders and investors that in the next three quarters they will see good results because of these changes in our plans.

**Liang:** My question is about the decisions you made three years ago. Legend is best known for its thorough approach to decision making, but that diversification decision did not turn out the way you wanted. Was it mainly the consequence of unforeseeable environmental changes, or because there was a problem in Legend's decision process at that time?

**Liu:** I have often thought about this issue. I believe the reason why we did not achieve our goals was 60% because of external factors and 40% because of internal reasons. After I set up Legend in 1984, until the year 2000 - or for 16 years - the Chinese economy grew rapidly and the PC industry expanded with it. No one expected it to turn down suddenly or for demand to drop. It was a setback for us. Everyone experiences some setbacks, and they must learn from these experiences. Three years ago we set a goal of achieving revenues of 60 billion RMB (\$7.5 billion) but our revenues were less than 30 billion RMB (\$3.8 billion). We did not expect that the market and our situation market would turn out to be like this. Of course, we must make a very thorough and detailed review of our decision making process. But to be more specific, the objective environment was different than everyone's expectations. For example, in the years 2000 and 2001, many venture capitalists in the U.S. also had negative returns. It seems no one had expected the situation to change so dramatically.

Of course, I also said that 40% of the results were because of internal factors. What I meant was that when the management team and the Board make decisions, they must use their internal support system. This means they must receive as much information as possible and understand what is behind the information and have a clear view of what is likely to happen in the future.

Secondly, they must have thorough discussions within the top-level management team and also understand the problems that may come up in executing their plans. We are going through this process to ensure that we don't make mistakes in the future. I think this is good for Legend. In China, many companies grew rapidly when the economic situation was good but when the economy worsened, they were wiped out from the market. But Legend has been able to hold on even when market conditions turned adverse. We have been able to find ways to fight it out.

**Useem:** Looking back over the 20 years since you founded Legend, what is the most important single piece of advice you would give an entrepreneur who is setting out to launch a firm in China today? And what is the most important piece of advice you would give someone who is running a very large enterprise, as Legend is today?

**Liu:** For those who are starting their careers and their own business at the startup stage, one word I would say to them is "perseverance." They should know that everyone faces setbacks and failures -- that this is part of everyone's experience -- and that they must stick to their goals and keep trying all the time.

For executives at large companies of Legend's size, my advice is that they remember that in order to keep the company going over a long time, one success or one setback is not that important. The most important thing is to establish a solid management base. This needs three things. First, you have to find the right people and bring them to your team. Second, you have to decide the right strategy and plan. And third, you have to have strong execution power. With these three points a strong base can be established for the company.

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