For many, the purchase of IBM’s personal computer business by Lenovo (the former Legend), a Chinese company, may spell out an end of an era, which started with the first IBM PC back in 1981. However, the news should not be much of a surprise to those who have followed the history of IBM nor to those who know the evolution of Lenovo. On the one hand, IBM’s PC division has not made a profit for some time. On the other, Big Blue has made it quite clear that it wants to compete more with Accenture than with Dell.

In technological companies, it is customary for manufacturing models to develop as technology matures. In the first years of life of a technology, companies try to vertically and centrally control all the stages of the value chain while, as the technology develops, companies opt to decentralise or outsource part of this chain to focus on innovation.

This evolution may be undertaken by setting up subsidiaries or joint-ventures in countries with lower costs, or even wholly subcontracting product manufacturing to the so-called Contract Manufacturers (CM), a sector led on a global scale by Flextronics and Solectron. These companies are themselves developing into Contract Design Manufacturing (CDM) and Original Design Manufacturing (ODM) while they expand their own cover of the chain, incorporating their own design activities and offering original products to be sold by known trade marks.

At present, most of the design and manufacture of PCs sold by IBM, HP, Dell and other leading makes with a western look are now being made in these conditions in Asia. As a New York Times article put it in February 2001, “Ignore the Label: Its Flextronics inside”, paraphrasing the well known slogan “Intel inside” that appears on practically all PCs.

Although IBM’s latest move is not surprising, there are certain essentially different characteristics in this case that are worth pointing out. Firstly, IBM is selling off its business. That is, it is not trying to outsource part of its business and free resources in mature technologies to funnel them into new technologies and products. It is actually getting out of the industry. Maybe IBM thinks that the sector is so mature that there is no point in
investing in developing new technologies. Maybe it is that it has lost so much leadership in the sector that it is not worth its while fighting for a small part of the market.

Its emphasis on services—software and consulting—reminds us of a former period of Digital Equipment Corporation (DEC), at that time the second largest in the sector and subsequently bought by Compaq in 1998, which in turn was bought by HP. DEC took a similar path in the definition of its core competencies, moving away from the computer market and opening up an IT strategic consulting division.

Secondly, the news stands out because the buyer is a Chinese company. In spite of the obvious importance of China in the world market, many western directors would be hard pressed to name five multinational companies there. Lenovo’s purchase of IBM falls in line with the tendency, promoted by the Chinese authorities, to promote their large companies on the international market. Lenovo is the biggest computer manufacturer in China, but after buying the IBM PC business, it has quadrupled its volume. Its strength in low cost manufacturing will combine with IBM’s sales and distribution network, which covers more than fifty countries. In this way, Lenovo gets to control the part of the chain that was missing and its computers will now reach every corner of the world. The move is, well, logical.

In order to make themselves global, the Chinese companies, leaders in manufacturing, integrate distribution and sales in other countries. So, apart from having cheap labour that comes from the young rural Chinese who move to the cities to take up jobs in assembly lines to improve their quality of life, not to mention a high degree of training given by such companies as Intel, Motorola, Microsoft and other leading tech companies that already have major research centers in China, they also take over powerful distribution and sales structures in western markets.

In the case of TCL, the leading maker of TVs in China, who bought out Thomson, the French company, at the beginning of the year to become the largest television and screen manufacturer in the world; or Haier, the white line maker, who has acquired plants in Europe and the United States over the last few years.

Lenovo’s decision was taken with the intention of setting up another Chinese multinational company. While western companies are getting rid of their manufacturing activities, the Chinese are adding design, marketing and sales activities to their already dominant productive chains. The case of IBM-Lenovo fits in perfectly with this tendency and it is not going to be the last, nor the most surprising.