

# Lenovo bucks trend with decision to manufacture in US

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Lenovo is portraying its relatively modest plans to manufacture personal computers in North Carolina - creating 115 jobs and investing \$2 million - as a first step that could lead to much more.

But even such a small manufacturing footprint represents a gamble for the Chinese-based company given that virtually all of the PCs sold in this country, including those made by U.S. companies such as Hewlett-Packard and Dell, are now made elsewhere.

"[Lenovo](#) is kind of pushing the envelope here in terms of bringing manufacturing back to the U.S.," said [technology analyst Rob Enderle](#) of The Enderle Group.

The company's decision, formally announced Tuesday during a news conference at its Morrisville offices, reflects Lenovo's confidence in being able to make further inroads into the U.S. PC market. The company also believes that some consumers and businesses will be drawn to PCs that are made in America.

"We're very bullish," said David Schmoock, president of the No. 2 [computer maker](#)'s North American business. "I'm expecting I'll be able to stand up here on a future day and talk about expansion."

Lenovo's strategy of starting with a small production line is in stark contrast with the last PC company that chose North Carolina as a manufacturing site.

In 2005 Dell opened, with great fanfare, a PC factory in Winston-Salem, N.C., that was expected to eventually employ more than 1,500 workers. But slumping sales triggered the company's decision to shut down the plant just four years later.

The chances of a similar fate befalling Lenovo's plant in Whitsett, N.C., are undercut by its smaller scale, said technology analyst Roger Kay of Endpoint Technologies Associates.

"Lenovo is still pinching its pennies a bit even as it expands," Kay said. "Therefore, the likelihood of Lenovo having the same consequences as Dell is lower."

Schmoock declined to say what the manufacturing capacity will be at the Whitsett plant.

Steve Kleynhans, research vice president with the Gartner Group, said based on the employee count and the amount being invested, the number of PCs being produced won't be huge.

"We're not talking millions of machines," he said. "We're talking thousands of machines."

Another major difference between Lenovo and Dell is that Dell was lured by a pledge of up to \$280 million in state and local incentives, which at the time was a record for North Carolina. Lenovo sought no incentives and received none, said state Secretary of Commerce Keith Crisco, who was among the host of dignitaries who attended Tuesday's news conference.

Some industry experts speculate the company is doing some toe-dipping before deciding whether to take the plunge.

"This mostly looks like it is an experiment, a hedge against the future," Kleynhans said. "I think it's always good to have a diversified selection of manufacturing facilities around the world to help you if you run into supply chain hiccups or natural disasters or whatever."

And although Lenovo says politics were a non-factor in its decision, Kleynhans also sees the move as a hedge against a change in the political climate.

"It has always been something that they have been concerned about that, as a Chinese company, their products may not always be accepted in the U.S. and some other places," he said.

Lenovo expects to begin manufacturing in Whitsett early next year. Hiring is expected to get under way later this year. Schmooch declined to disclose the wages the company intends to pay.

Crisco said Lenovo also considered expanding its manufacturing operations elsewhere, especially in Mexico, before choosing Whitsett. Overall the company has more than 28,000 workers worldwide and generated \$29.6 billion in revenue in its latest fiscal year.

Lenovo is riding a wave of surging sales that has put it on the verge of becoming the No. 1 PC maker worldwide. It has benefited from aggressive pricing and attractive and innovative products, and from acquisitions in overseas markets.

Its U.S. sales also have been outpacing the market for more than two years, but here it's still the fourth-selling brand behind HP, Dell and Apple, according to research firm IDC.

To make up ground, Lenovo has upped its marketing efforts - this summer it became a "proud sponsor of the NFL" - and has ramped up its

distribution. Lenovo PCs were available in 400 stores 18 months ago; today its products are in 4,000 stores.

Lenovo's Achilles heel right now - one it shares with competitors - is the lack of a hit tablet device to compete with Apple's iPad.

"That's where the sales are," Enderle said. "Having a successful tablet would make a huge difference. Right now Apple kind of owns the tablet market ... and none of the PC makers are doing well."

Lenovo and other PC makers are hoping to change that dynamic with a new generation of tablets that run on the new Windows 8 operating system, which is being unveiled at the end of the month. Windows 8 enables users to run the popular Microsoft Office suite of products, including spreadsheets and word-processing software, which are beyond the capabilities of today's tablets.

"There is certainly a lot of opportunity for a lot of them to be sold, but it is up to the consumer, whether consumers are going to adopt a new interface," Enderle said. "Consumers often don't like things that are different, even if they are better."

Lenovo is planning to offer "convertible" tablets, hybrids that combine the virtues of a tablet and an ultralight laptop, which the industry calls ultrabooks. Its upcoming ThinkPad Tablet 2 features a tablet that can be inserted into a keyboard to become an ultrabook.

Although analysts don't see anything on the near-term horizon that would derail Lenovo's impressive momentum, history isn't on Lenovo's side over the long-term.

"It must be understood that, in the PC industry, champions have come and gone over the years," Kay said. "If you look at it, you will see that

none has reigned for greater than a five-year stretch."

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