

## Competitive Landscape: PC Market, China

Simon Ye

Huge demand for PCs in China has intensified competition and created numerous opportunities. We studied the strategies and business models of the PC vendors in China's domestic market and what they must do to differentiate themselves.

## TABLE OF CONTENTS

---

Analysis .....	4
1.0 Market Definition.....	4
2.0 Competitive Situation and Trends .....	4
2.1 Increasing Demand From Small and Midsize Cities .....	4
2.2 Small Business Is Fastest-Growing Professional Segment .....	4
2.3 Increasing Development for 3G Telecom Market.....	5
2.4 Increasing Need for VAR to Better Serve Enterprise Customers .....	5
3.0 Key Competitive Influences.....	5
3.1 PC Buyers .....	6
3.2 Public Sector .....	6
3.3 Commercial Entity .....	6
3.3.1 Government Impact.....	7
3.3.2 Geographical and Channel Coverage .....	8
3.3.3 Pricing Strategy .....	8
3.3.4 Service.....	9
4.0 Market Players.....	10
4.1 The Four Types of PC Vendors.....	10
5.0 Competitive Profiles by Type of PC Vendor .....	11
5.1 Group 1: Global PC Vendors.....	11
5.1.1 Dell .....	11
5.1.1.1 Strengths .....	12
5.1.1.2 Weaknesses .....	12
5.1.1.3 Opportunities .....	12
5.1.1.4 Threats .....	12
5.1.2 HP.....	12
5.1.2.1 Strengths .....	12
5.1.2.2 Weaknesses .....	13
5.1.2.3 Opportunities .....	13
5.1.2.4 Threats .....	13
5.1.3 Asus.....	13
5.1.3.1 Strengths .....	13
5.1.3.2 Weaknesses .....	13
5.1.3.3 Opportunities .....	14
5.1.3.4 Threats .....	14
5.2 Group 2: Large Local PC Vendors .....	14
5.2.1 Lenovo.....	14
5.2.1.1 Strengths .....	14
5.2.1.2 Weaknesses .....	14
5.2.1.3 Opportunities .....	14
5.2.1.4 Threats .....	15
5.2.2 Founder .....	15
5.2.2.1 Strengths .....	15
5.2.2.2 Weaknesses .....	15
5.2.2.3 Opportunities .....	15
5.2.2.4 Threats .....	15
5.3 Group 3: Small and Midsize PC Vendors.....	16
5.3.1 Haier .....	16
5.3.1.1 Strengths .....	16
5.3.1.2 Weaknesses .....	16
5.3.1.3 Opportunities .....	16

5.3.1.4 Threats .....	16
5.3.2 Hasee .....	16
5.3.2.1 Strengths .....	17
5.3.2.2 Weaknesses .....	17
5.3.2.3 Opportunities .....	17
5.3.2.4 Threats .....	17
6.0 References and Methodology .....	17
Recommended Reading .....	18

## **LIST OF TABLES**

---

Table 1. China: PC Unit Shipment Splits by City Tier (Percent) .....	4
Table 2. China: Increase in Purchasing Power, Compared With PC Prices, 2002-2010 (Dollars)...	8

## **LIST OF FIGURES**

---

Figure 1. China: PC Unit Shipments CAGR, 2007-2012.....	5
Figure 2. China: PC ASP Trend, 2007-2012 .....	9
Figure 3. China: Factors That Determine Choice of PC Brand .....	10

## ANALYSIS

---

### 1.0 Market Definition

This competitive landscape presents a view of competition for the Chinese PC market. The analysis focuses on types of PC vendors competing in the market to target various customers' demand. It does not rate, score or rank PC vendors in a quantified way. The products offered by PC vendors including product supports and professional services. For definitions of these products, see "Dataquest Guide: Computing Hardware Definitions, Worldwide, 2008." Recently published Gartner documents such as Market Share and Forecast, Vendor Profiles, and key PC vendor SWOT analysis are reference points for this piece.

### 2.0 Competitive Situation and Trends

The next 36 months will be the period of greatest consolidation and changes in the Chinese PC market due to the difficult economic background. Gartner estimates 2009 will be the toughest year with only 3.2% year over year (YOY) growth rate. Before 2009, the Chinese PC market had maintained double-digit growth for many years. Large, branded PC vendors have a great chance to increase their market share at the expense of decreasing share or withdrawal of small PC vendors and white-box PC vendors if they can address the market demand appropriately. On the contrary, large, branded PC vendors also face the big challenge of losing share to small PC vendors and white-box PC vendors, because cost savings are reconsidered the most-important factor in purchasing PCs during this difficult economy. Large PC vendor must plan their pricing strategy carefully.

#### 2.1 Increasing Demand From Small and Midsize Cities

The Chinese PC market has been growing at double-digit rates for many years, with large cities providing the main drivers. However, some large cities are becoming saturated, and almost all PC vendors are competing intensively there. The potential growth from small and midsize cities will be higher than ever before. Geographic coverage becomes one of the most-important factors leading to the success in the Chinese PC market. Table 1 shows the Chinese PC unit shipment split by city tier.

**Table 1. China: PC Unit Shipment Splits by City Tier (Percent)**

	2004	2006	2008	2010	2012
Large Cities	81	76	70	64	60
Midsize Cities	15	19	22	25	27
Small Cities	4	5	8	11	13

Source: Gartner (June 2009)

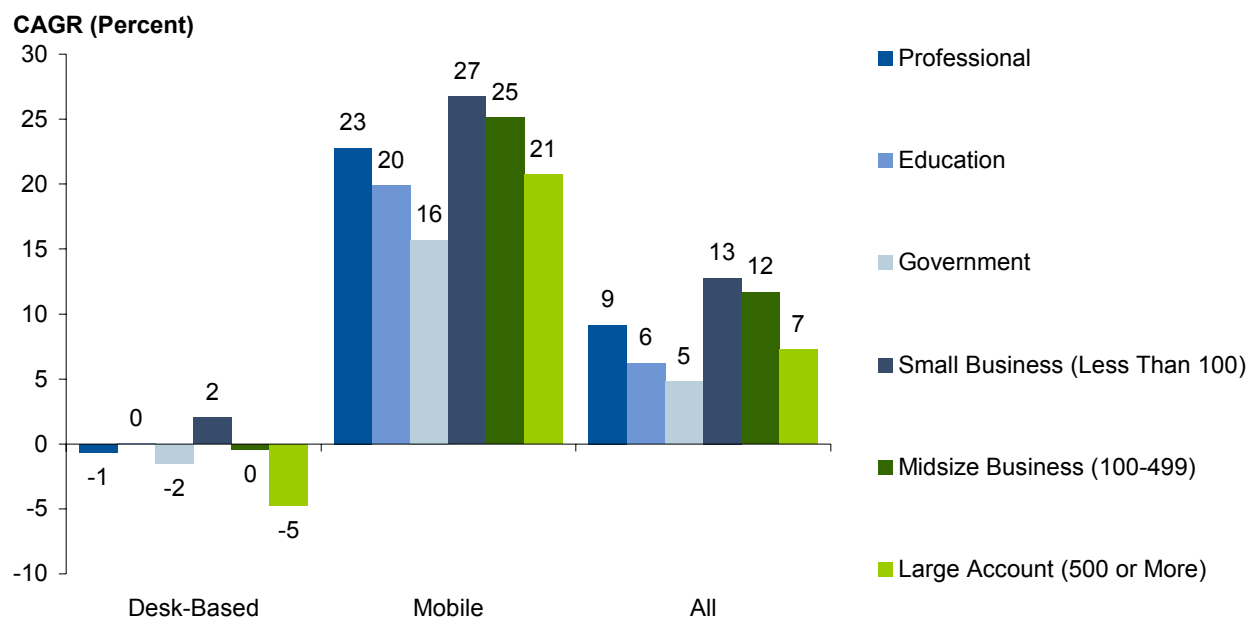
For more details and city tier definition, see "Market Trends: Are You Ready to Sell PCs in China's Small Cities?"

#### 2.2 Small Business Is Fastest-Growing Professional Segment

Small business has been the fastest-growing professional segment for several years. As the unemployment rate continued to grow in the recent quarters, the Chinese government encouraged small business through policies such as tax exemptions and financial support. The professional PC unit shipment market share of small business is expected to grow from 22.5% in

2002 to 35.1% in 2012. Although small-business growth will slow somewhat because of the economic crisis in 2009, it will continue to be the fastest-growing professional segment at least by 2012. Figure 1 shows the CAGR PC shipments from 2007 through 2012.

**Figure 1. China: PC Unit Shipments CAGR, 2007-2012**



Source: Gartner (June 2009)

### 2.3 Increasing Development for 3G Telecom Market

3G technology was put into service in 1H09. China Mobile adopted Time Division-Synchronous Code Division Multiple Access, while China Telecom and China Unicom adopted Code Division Multiple Access and Wideband Code Division Multiple Access technology, respectively. The huge potential of China's 3G market attracted PC vendors to develop related products and services. Considering the broad network and huge customer base, it is important for PC vendors to build deeper cooperation with telecom carriers, which will definitely bring them competitive advantage in project bids.

### 2.4 Increasing Need for VAR to Better Serve Enterprise Customers

Most PC vendors in China sell PCs as "boxes" instead of hard/software bundling devices, but an increasing number of enterprises prefer bundled software with PCs. PC vendors should pay more attention to segments in the vertical industries and launch corresponding products. According to Gartner's latest survey on large enterprises in China, 40% of respondents recognized the value of "virtual desktops" in reducing PC cost. It is worthwhile in the current economic downturn for PC vendors to explore this solution with the providers such as Citrix to target large PC consumers, such as government, banking and servicing organization.

## 3.0 Key Competitive Influences

Here we introduce the key competitive influencers of the Chinese domestic PC market.

### 3.1 PC Buyers

The customer base comprises different entities. We categorize the domestic customer base as two sectors and five groups, as follows:

### 3.2 Public Sector

- **Government** — A government department is led by the State Council of People's Republic of China (PRC), which is the highest executive organ of state power, as well as the highest organ of state administration (see Note 1). Under the State Council of PRC, many ministries, commissions and constitutions try to leverage IT systems to build an e-government platform among all departments. The key goal is opening governmental affairs and making them transparent. Generally speaking, PC vendors deliver PCs to government IT projects mainly through the channels, because the government purchasing usually requires them to have met certain standards, such as the China Compulsory Certification (3C), and government purchasing supplier certification. All certifications are issued by a government department, so government purchasing is highly influenced by the government guidance.
- **State-owned companies.** These are another major government client. Currently, 169 companies are directly controlled by the central government's State-Owned Assets Supervision and Administration Commission of the State Council. These 169 companies, mostly in telecommunications, utilities, transportation and manufacturing, are the highest level of state-owned companies and are a key part of China's tax base. Each company has subsidiaries located in provinces and big cities. Company sizes range from tens of thousands to hundreds of thousands of employees. Most want to expand into overseas markets. Government focus on reform and integration of these companies means that there are opportunities for business PC on consolidation and integration of legacy systems. In addition to these 169 highest-level, state-owned companies are tens of thousands of sublevel, state-owned companies throughout the country. Their operation model is similar, but they report to different national government departments or provincial governments.
- **Education** — According to the latest data from National Statistic Bureau, there are 533,654 schools (including university, middle schools and primary schools) in China. About 238 million students attend school. However, Gartner estimates that the PC penetration rate in the education segment is still less than 8%. The famous Xiaoxiaotong (all schools connected) project has been executed for more than five years, and the government has definitely confirmed that the project will continue. The Chinese government will secure IT investments in the education sector as part of its goal to upgrade educational quality. The resulting demand for PCs will maintain stable growth in China for a long time.

### 3.3 Commercial Entity

The following kinds of enterprises are privately owned by foreign or Chinese entities:

- **Multinationals** — By the end of 2007, there were 294,831 multinational companies (data source is Ministry of Commerce of PRC of which the Fortune 500 companies headquartered in developed countries are mostly operational in the Chinese market already. They bring technology and mature operational experience into China to set up joint ventures and wholly owned companies in China. Some of these companies want to become established in China to penetrate opportunities for their respective product offerings; others seek lower-cost resource pools. Most use PCs from global PC vendors.

In recent years, some companies have tried buying PCs from large, local PC vendors, or even regional PC vendors, to cut cost. This had the effect of raising the quality of local-branded PCs.

- **Large local enterprises** — There are vast numbers of commercial enterprises in China. The larger sets of commercial enterprise are normally all over the country and typically exceed 10,000 employees. Then, at the regional (provincial or city) level are the more-targeted commercial companies with between 1,000 and 10,000 employees. These enterprises need all types of services. Some have global potential and will be looking for opportunities to do business outside of China. Most of these companies use local branded PCs in China and have limited experience with global PC vendors. If the price gap between global and local PC could be further narrowed, these large local companies might consider global-branded PCs. both in and out of China.
- **Small and midsize businesses (SMBs)** — There are approximately 42 million SMBs in China. Of these, 4.6 million are registered companies, while 37.4 million are small, privately owned businesses, according to the National Development and Reform Committee in 2006. They are usually price-sensitive, buying PC via resellers or retailing channels. Less-expensive regional or local PC vendors and white-box PCs are also popular. But a growing number of SMBs are willing to try global branded PCs because of the narrowing price gap, especially in large cities.

### 3.3.1 Government Impact

China's economy is deeply influenced by government deeply, which usually plays an important role in domestic market guidance. In 2H08, the Chinese government announced a huge market stimulus plan to resist the global economic crisis, allocating 4 trillion yuan (\$576.3 billion) through 2010 to increase domestic market demand through projects that include public housing, rural infrastructure and water supply, irrigation, roads and power; transportation infrastructure (railway, ports, airports and power grid); improving health and education; and improving environmental management.

The Chinese government will have a greater influence on the PC market than ever before. This influence is manifest in two key areas: demand generation and hidden impact. The latest example of demand generation is the rural PC project. In February 2009, PCs were added to the catalog of the Electrical Appliances to Villages program, and the entitled regions were expanded to all the provinces (see "China's Rural Communities Present Opportunity for PC Vendors"). It is expected to drive huge incremental PC shipments in 2H09. In December 2007, the China Ministry of Finance and China Ministry of Commerce issued a joint announcement to launch its Electrical Appliances to Villages program (see "Rural China PC Program Will Increase PC Shipments in 2009").

The Chinese government also influences competition by virtue of its hidden impact. Although China continues to make improvements in the ease of doing business in that country, its business laws and regulations are still complex and nontransparent. Foreign entrants to the Chinese market must set up good relationships with local government. A foreign provider's success in China depends on cultural understanding and strong familiarity with local businesses. For example, which kind of media is suitable for the targeted customer? Who is the ideal local business partner? What colors and numbers are the taboos in the region? A powerful global brand and deep pockets are not guarantees of success, if they don't pay enough attention to local custom.

### 3.3.2 Geographical and Channel Coverage

China is an emerging country. However, PC vendors that consider the Chinese PC market as a whole will find it difficult to properly address the market needs. China is a huge country with 34 provinces, and the regional markets are diversified because the regional economies and infrastructures are largely different. China's huge geography used to be a big concern for most PC vendors. Before 2004, only a few local leading vendors (for example, Lenovo and Founder) were able to penetrate Tier 5 and Tier 6 cities. Most other PC vendors could sell only to Tier 1 and Tier 2 cities. Since then, however, China's Tier 1 and Tier 2 cities have become saturated, mature markets, and almost all PC vendors are focused there, leaving little room for rapid growth for any vendor.

Some leading PC vendors deduced that their growth and return on investment (ROI) will not be able to meet their targets if they just stay only in Tier 1 and Tier 2 cities. As a consequence, they're looking for more opportunity in Tier 3 through Tier 6 cities and rural areas. But doing business in these areas can be difficult, because half of them have problems with broadband connectivity, logistic and service.

The channels will remain important in China for years to come. Using standard business models to access the Chinese PC market will be successful only in certain vertical industries or regions. The market is becoming more specific, and the future belongs to those who are experienced in handling hybrid business models. PC vendors should pay more attention to the channel models that provide easy access to customers, especially consumers and SMBs. Consumer electronics stores, value-added resellers (VARs) and Internet sales are accepted by an increasing number of customers because they are reliable and convenient. Furthermore, PC vendors should pay attention to the emerging or creative channel models that make it easy to access customers in small cities and rural areas where traditional channels cannot reach. For example, Internet cafés, grocery stores and telecom branches could be powerful partners in the future.

### 3.3.3 Pricing Strategy

Table 2 shows that the purchasing power of Chinese families has sharply increased. Within eight years, the average annual income per capita increased by 158%, while the average PC street price dropped 31%. Now PCs are affordable, even to middle- and low-income families. As TV sets have gained universal penetration in China, so will PCs — not only in large and midsize cities, but also in small cities and rural areas.

**Table 2. China: Increase in Purchasing Power, Compared With PC Prices, 2002-2010 (Dollars)**

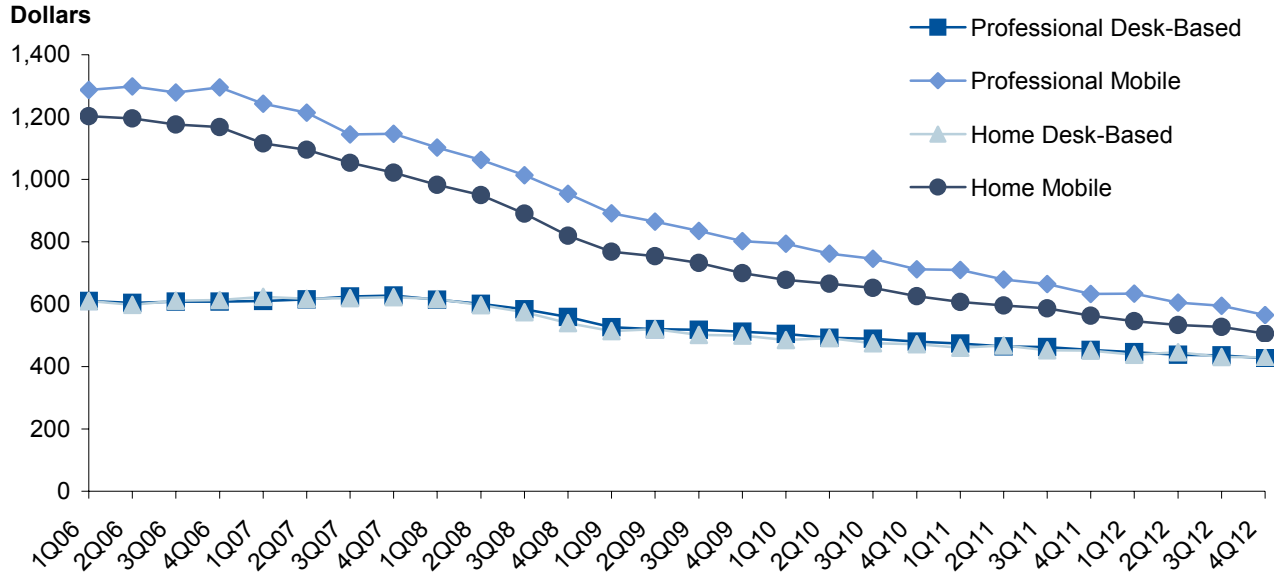
	2002	2004	2006	2008	2010
Average Annual Income per Capita	940	1,139	1,507	2,310	2,426
Average PC Street Price	934	802	652	691	640

Notes: The Chinese yuan appreciated about 12% from 2006 through 2008. Average annual income per capita in 2010 is based on the assumption that it will be slightly below China's 2010 GDP growth rate.

Source: Gartner (June 2009)

However, the increasing purchasing power of Chinese families doesn't mean they will buy expensive PCs, especially during the current economic downturn. Both consumer and commercial buyers are tending to choose less-expensive PCs (see Figure 2).

**Figure 2. China: PC ASP Trend, 2007-2012**

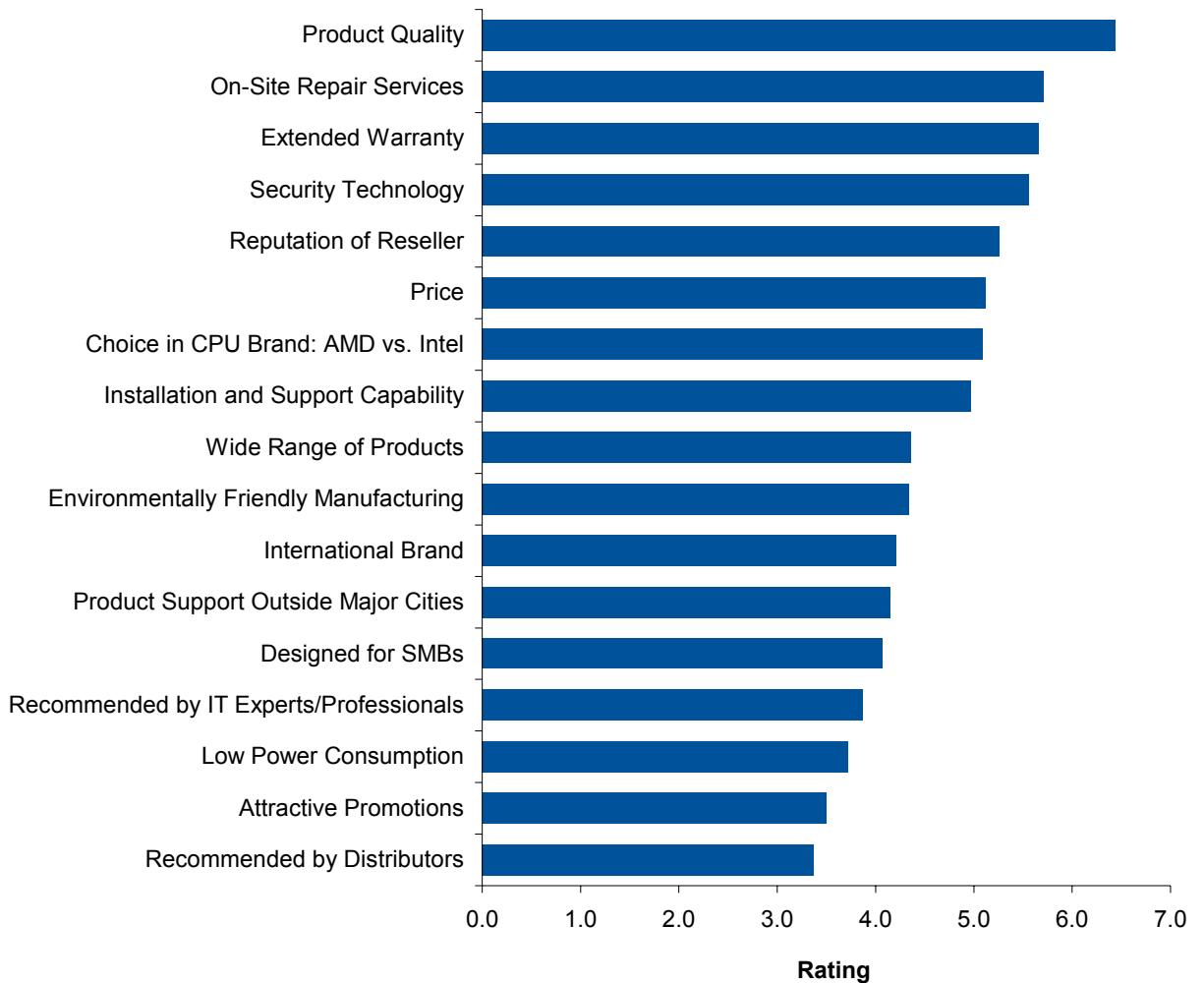


Source: Gartner (June 2009)

### 3.3.4 Service

Service is gaining in importance as PCs become a commodity. Better service quality helps attract new customers and maintain relationships with existing customers, especially those customers with limited IT skills. According to "User Survey Analysis: PC Buyers in China Value Quality and Service over Power Consumption," product quality and service are the most important purchase criteria for Chinese midsize business buyers in both the desktop and notebook category. Midsize companies consider the PC vendor's service quality of PC vendor the most important factor because of their lack of dedicated IT employees. On-site maintenance and extended warranties were ranked No. 2 and No. 3, respectively, (see Figure 3), which further indicates that service quality is the biggest differentiator to influence the purchase decision.

**Figure 3. China: Factors That Determine Choice of PC Brand**



Note: Ratings are based on a scale of 1 to 5, with 1 being least important and 7 being most important.

Source: Gartner (June 2009)

Concerns over the global economy have influenced China's exports and economy, and hampered new PC sales. And our findings indicate that these customers will continue to put a high value on lower costs and service than on innovation.

## 4.0 Market Players

### 4.1 The Four Types of PC Vendors

In this research, we specify four types of PC vendors competing for the share of the PC market in China. As PCs became a commodity, operation efficiency and company scale assumed greater influence in the PC industry. Again, further consolidation in the Chinese PC market is likely during the next three to five years. The leading PC vendors will continue to gain market share, while the small PC vendors will experience difficulties. The white-box market will also lose share, but more slowly than small PC vendors. The criterion for defining these four groups is by market size range

based on our yearly market share database and company backgrounds (for detailed information, please see Section 6, References and Methodology).

We divide PC vendors into the following four basic types:

- **Global PC vendors** — These vendors are headquartered in Tier 1 cities. Company size is more than 1,000 employees. They have a strong presence in large cities, and some have started to penetrate into midsize and small cities. They usually have a good relationship with government and get a certain level of government support. They mostly provide PCs to global clients, consumers in large cities and large enterprises. Representative PC vendors include Dell and HP.
- **Large local PC vendors** — These vendors are headquartered in Tier 1 cities. Company size is more than employees. They have a strong presence in most regions and usually have good relationship with government and get strong government support. They provide PCs to almost all types of client groups, such as government, education, consumers, SMBs and large local enterprises. But their PCs are not well-accepted by MNCs because of the low brand awareness outside of China. Representative PC vendors include Lenovo, Founder and Tongfang.
- **Small and midsize local PC vendors** — These vendors are headquartered in Chinese Tier 1 or Tier 2 cities. Company size is from 300 to 1,000 employees. There are about 10 to 20 such PC vendors in China. They have a strong regional presence and are an important part of the regional tax base, so they get strong regional government support. They mostly provide PCs to small and midsize clients and regional consumers. Representative PC vendors include Hasee and Haier.
- **White-box, large PC vendors** — These vendors usually make limited shipments of branded and nonbranded PCs. There are tens of thousands of them all over the country. They compete against each other intensively, and their only advantage is price. They don't compete with above-mentioned three types of PC vendors. Their major clients are small businesses and low-income consumers.

## 5.0 Competitive Profiles by Type of PC Vendor

Here, we select two to three key PC vendors in each group to profile their market position, strategy, clients and vertical focus. The key PC vendors selected are meant to be illustrative examples rather than a rating or a ranking or any indicator about the segment.

### 5.1 Group 1: Global PC Vendors

#### 5.1.1 Dell

Dell is the No. 3 PC vendor in China and No. 2 worldwide. Dell recently reorganized into four distinct global strategic business units. Dell shipped 3.5 million PCs in 2008 in China, which is equivalent to an 8.5% market share. Dell's private segment is relatively small but growing fast. It offers low prices that can compete even with some local vendors, which Dell has not done before. Large businesses have been Dell's strength for some time, due to its value price strategy and strong account management in the larger cities. Up until now, Dell has covered mostly Tier 1 through Tier 3 cities, and some Tier 4 cities, but it is expanding its coverage by adopting the channel model.

#### 5.1.1.1 Strengths

- Business model — Direct concept, powerful supply chain management (low inventory level, easily customized configuration)
- Marketing tactics — Low price with frequent use of Hero product, full range of all kinds of media in China
- Clear product positioning (for example, Inspiron vs. Latitude)

#### 5.1.1.2 Weaknesses

- Service — Dell's service has been inconsistent compared with other global vendors operating in China.
- Geographic coverage — Dell can cover Tier 1 through Tier 3 cities and some Tier 4 cities. It is behind its major competitors in this regard.

#### 5.1.1.3 Opportunities

- Business environment — Credit system and regulation were set up gradually; a growing number of customers in Tier 1 and 2 cities accept direct model.
- Dell finally embraced the channel model in China, and it is a new area for Dell.

#### 5.1.1.4 Threats

- Major competitors are working hard to compete in Dell's traditional area of strength: large enterprises.
- The growth of large enterprises is slower than other areas of the commercial segment.

### 5.1.2 HP

HP is the second-largest PC vendor in the Chinese market. HP shipped 4.4 million PCs in 2008 in China, which is equivalent to a 10.7% market share. HP has a long product line, including PCs, servers, storage and networking, printing and imaging, service, software, and consulting. HP is strong in the consumer segment due to its stylish design and abundant product choices. HP is also quickly narrowing the gap with Dell in the commercial space, especially in the finance and telecom segments. HP has gained market share in all business segments, including SMBs and large enterprises, in the recent years. HP jumped from No. 5 in 2005 to No. 2 in 2007 by improving its overall competitiveness in pricing and geographic coverage. HP covers Tier 1 through Tier 4 cities and some Tier 5 cities and is expanding its coverage to more small cities and rural areas.

#### 5.1.2.1 Strengths

- Brand image — Famous global brand.
- Strong R&D — HP is known as an inventive enterprise; there is no doubt about its R&D capability.
- Full product line — One-stop purchasing strategy. HP can provide the most-extensive product line to its customers.
- Service reputation — HP has a good reputation and has received a number of customer satisfaction awards.

### 5.1.2.2 Weaknesses

- Government and education segment.
- Although the price gap between HP and local brands has narrowed, Chinese buyers still consider HP expensive. This has had a negative impact during the economic crisis.

### 5.1.2.3 Opportunities

- HP's product is on the rural PC program list.
- Chinese PC users appreciate strong service and support.

### 5.1.2.4 Threats

- Competition from Dell — Dell is very aggressive and its prices are targeting leading local vendors, which puts pressure on HP. And Dell has adopted a channel strategy to penetrate regions it was previously unable to reach.
- Netbook PCs — HP is the leading notebook PC vendor in China, but fast-growing low-price notebook PCs, including netbooks (low-cost, Internet-focused mini-notebooks), erode average selling prices (ASPs) and give other vendors a good chance to fight back on low-end notebook PC.
- Global economy — Consumer business is more influenced by the global economy than commercial business, and HP's consumer business percentage is high.

## 5.1.3 Asus

Asus is the No. 6 PC vendor in the Chinese market. Asus shipped 1.6 million PCs in 2008 in China, which is equivalent to a 3.8% market share. Asus focus is on notebook PCs in China. Its desktop PC business is tiny. However, Asus has gained market share in the private and small-business segments since 2001, because its design is more fashionable than that of most local vendors. It is also less expensive than global vendors. Its motherboard has a good reputation, which will attract do-it-yourselfers and small businesses. Thanks to eee PC, the famous netbook, Asus greatly grew its market share in China. Asus has started to penetrate into certain vertical markets, such as telecom bundling and education. Asus covers Tier 1 and Tier 2 cities and some Tier 3 cities. Geographic coverage remains a big barrier for Asus in China.

### 5.1.3.1 Strengths

- Brand image — Asus is very well-known in China, mostly for its motherboard products.
- Strong R&D — Asus is experienced in notebook design and is one of the most-admired notebook brands in Taiwan.
- Notebook manufacturing — Asus is experienced in the original design manufacturing (ODM) of notebooks.

### 5.1.3.2 Weaknesses

- The commercial segment is rather low, most PC buyers regard Asus as a consumer brand.
- Asus' desktop PC business is small in China, although desktop PCs still account for more than 65% of total PC shipments.

### 5.1.3.3 Opportunities

- Adjustment of OEM and its own branded notebook — Most OEM/ODM business are under Asus' subsidiary company WeiShuo; Asus has turned its focus to the Asus brand notebook, which has removed many OEM concerns.
- Consumer segment — The consumer segment is the fastest-growing segment among all PC categories; Asus does well with fashion design, good quality and relatively low prices compared with global brands.
- Mini notebooks will be the fastest-growing PC product; Asus is a leader in netbook PCs.

### 5.1.3.4 Threats

- Taiwan issue — Political concerns may have some impact on Asus' business in the Chinese government segment, because Asus is a Taiwanese company.
- The rural PC program will stimulate huge demand, but 80% to 90% will be for desktop PCs, which is not good news for notebook PC vendors like Asus.

## 5.2 Group 2: Large Local PC Vendors

### 5.2.1 Lenovo

Lenovo is the No. 1 PC vendor in China and has dominated the Chinese PC market for years. Lenovo shipped 11.4 million PC in 2008 in China, which is equivalent to a 27.5% market share. In China, Lenovo has a rich product offering including PCs, servers, printers and services, which is similar to HP's offering. Lenovo is strong in almost all segments and has built up a powerful relationship with government. Lenovo covers Tier 1 through Tier 6 cities and is pushing hard to penetrate into small towns and rural areas. Its geographical coverage is wider than anyone else in China.

#### 5.2.1.1 Strengths

- Strong brand image — A combination of IBM and Lenovo
- Advanced R&D — Leverages two R&D teams; IBM owns more technology, and Lenovo knows the local market.
- Strong government relationship — Strengthened by the fact that Lenovo and IBM have a good relationship with government.
- Channel management — A further strengthening of the new Lenovo in vertical industries and range of coverage.
- Geographic coverage — The company is able to reach most Tier 6 cities.

#### 5.2.1.2 Weaknesses

- Price competitiveness declined — Large global PC vendors have adopted aggressive pricing strategies to narrow the price gap. Local PC vendors continue to launch low-price models to challenge the leading PC vendors.

#### 5.2.1.3 Opportunities

- Although 2008 Olympic Games are over, the worldwide exposure was helpful in strengthening brand power in the local and global market.

- The rural PC program — Lenovo won most product bidding and channel bidding.
- Lenovo strategy adjustment — Lenovo refocused on the Chinese market under global economic crisis.

#### **5.2.1.4 Threats**

- More sensitive to a global PC market slowdown
- Ambitious marketing by HP, Dell and Acer

### **5.2.2 Founder**

For a long time, Founder was the No. 2 PC vendor in China. However, HP replaced it in No. 2 position in 2007. Founder shipped 3.5 million PCs in 2008 in China, which is equivalent to an 8.5% market share. Founder is strong on desktop PCs while its notebook PC presence is relatively weak. Similar to Lenovo, Founder has built up very good relationship with government and education, and that's where its growth came from. Founder's private-segment business has also been rapidly growing since 2000, along with the growth of the Chinese consumer PC market. However, consumer desktop PC shipments have dropped considerably because of low consumer demand and a fast desktop replacement trend. Founder basically covers Tier 1 through Tier 6 cities. It is pushing hard to penetrate into small towns and rural areas.

#### **5.2.2.1 Strengths**

- Strong government and education relationship — Invested in by Beijing University in 1986.
- Leverage desktop channel — Founder's desktop PC ranks No. 2 in China, and it has a strong channel organization.
- Geographic coverage — Founder covers Tier 1 through Tier 5 cities and can reach 80% of Tier 6 cities.
- Service network coverage — After-sale service stations cover the main cities and towns.
- Good brand awareness in Tier 3 to Tier 6 cities.

#### **5.2.2.2 Weaknesses**

- R&D — Mainly uses ODM design.
- Scale — The scale is relatively smaller than that of multinational corporations.
- Notebook PCs — Founder's notebook business is weaker than its desktop PC business.

#### **5.2.2.3 Opportunities**

- Rural PC program — Founder won most of the product bidding and channel bidding in this area.
- Netbooks — The rise of netbooks has changed the nature of the notebook PC market. This gives Founder and Tongfang a good chance to fight back.

#### **5.2.2.4 Threats**

- Fast-dropping ASP — Because Founders' main volume is in the low-price band, every price drop will bring big pressure on it, because it doesn't have much room to drop.

- Localization of global vendors — Global vendors are improving their business mentality in China. They are trying to establish better relationship with local government. It understands what the local market needs and is catching up in a number of areas.
- Normative purchasing process — A more-centralized and transparent purchasing process will bring more opportunities to foreign vendors in procurement.

### **5.3 Group 3: Small and Midsize PC Vendors**

#### **5.3.1 Haier**

Haier is a famous brand in China, but it's better-known for its electrical appliances. Haier shipped 613,000 PCs in 2008 in China, which is equivalent to a 1.5% market share. Haier is strong in consumer segments due to its good reputation of making electrical appliances and its powerful consumer channel. Haier has built up good relationship with some regional governments. Haier covers Tier 1 through Tier 3 cities and some Tier 4 cities. Its coverage is mainly in north costal China.

##### **5.3.1.1 Strengths**

- Good company image brings advantage to the same-branded PC products.
- Consumer segment is growing well, and its consumer channel network is good.
- Strong government relationship — Haier is from Shandong Province, so its relationship with Shandong government and some neighboring provincial government is good.

##### **5.3.1.2 Weaknesses**

- Commercial segment is not as strong as the consumer segment.
- Coverage in some south China and inner regions is not as good as its coverage in north costal regions.
- Its notebook PC business grew slowly, while notebook PCs are the fastest-growing segment in the industry.

##### **5.3.1.3 Opportunities**

- Intel's support can help it to grow into large local PC vendors.
- Rural PC program — Haier won some product bidding and channel bidding.
- By penetration to more south and inner regions, its consumer business may become a local leading brand covering the whole country.

##### **5.3.1.4 Threats**

- The history of its PC business is short and unstable, which may cause uncertainty with commercial customers
- Scale is small, which means weak bargaining power with component suppliers.

#### **5.3.2 Hasee**

Hasee is well-known in China for its ultralow pricing strategy. Hasee shipped 475,000 PCs in 2008 in China, which is equivalent to a 1.2% market share. Hasee is strong in the low-end consumer and SMB segments on the strength of good price/performance PCs. Hasee has built

up a powerful relationship with regional government. Hasee covers Tier 1 through Tier 3 and some Tier 4 cities. Its geography coverage is mainly in south costal China.

#### **5.3.2.1 Strengths**

- Prices —Hasee has successfully marketed itself as the lowest-price brand in China. Ultralow pricing strategy attracted enough attention.
- Vertical production — Hasee makes good use of its own company's components, such as motherboard and video card to lower costs.
- Strong government relationship — Haier is from Shenzhen, so its relationship with Shenzhen government and some neighboring provincial government is good.

#### **5.3.2.2 Weaknesses**

- Commercial segment is not as good as consumer segment.
- Coverage in some North China and inner regions is not as good as its coverage in south costal regions.

#### **5.3.2.3 Opportunities**

- Intel's support to grow into large local PC vendors.
- Rural PC program — Haier won some product bidding and channel bidding.
- PC buyers become more price-sensitive during global economic crisis.

#### **5.3.2.4 Threats**

- The public impression of Hasee brand is that it is low end, which limits its growth in mainstream and high-end segments.
- Low prices cause low margin, which may influence the long-term operation and bring uncertainty of service, quality and R&D.
- Small scale means weak bargaining power with component suppliers

## **6.0 References and Methodology**

Each year, Gartner publishes market share statistics based on our current, comprehensive revenue models on approximately 30 PC vendors by platform, geographical area, vertical market, and distribution channel. In addition, Gartner nonregularly publishes strength, weakness opportunity and threat (SWOT) analyses of PC vendors, and key PC vendor profiles, which include both Chinese and global players that do business in China. The fundamental market share data, together with insightful SWOT analysis, provides a volume of available information to accompany this piece.

In addition to internal large database and tangible analysis pieces, we also analyze the volume of publicly available information to enable us to develop this market landscape piece based on high-level secondary research and modeling. Sources of information include, but are not limited to:

- Face-to-face interviews with PC vendors
- PC vendor briefing to analysts
- Published company financial reports

- Government data
- Reports from financial analysts
- Input from Gartner analysts and Gartner Executive Programs members
- PC vendor factual information review

Gartner understands that various companies, government agencies and trade associations may use slightly different definitions of PC categories and regional groupings, or they may include different companies in their summaries. Consider these differences when making comparisons between data and analysis provided by Gartner and those provided by other research organizations.

## **RECOMMENDED READING**

---

"China's Rural Communities Present Opportunity for PC Vendors"

"Market Trends: Are You Ready to Sell PCs in China's Small Cities?"

"User Survey Analysis: PC Buyers in China Value Quality and Service Over Power Consumption"

"Dataquest Insight: PC Market Trends in China Call for Hybrid Channel Approaches"

"Dataquest Insight: Internet Cafe PC Market Offers Sales Opportunity in China and South Korea"

"Forecast: PCs, Asia/Pacific, June 2009 Update"

"New China Mobile Mini-notebook Line Supports the TD-SCDMA Standard"

"SWOT: Lenovo, Worldwide"

"Market Trends: Olympic Games to Boost China's PC Market Somewhat"

### **Note 1**

#### **State Council of People's Republic of China**

The State Council of the People's Republic of China includes 27 commissions and ministries; one special organization; four offices; 17 institutions; and 22 administrations and bureaus, coupled with their branch organizations in 34 provinces, key cities and autonomies around China. For more information, see link: <http://english.gov.cn/>.

#### **This document is published in the following Market Insights:**

Computers and Printers Asia/Pacific

Computing Hardware Worldwide

## REGIONAL HEADQUARTERS

---

### **Corporate Headquarters**

56 Top Gallant Road  
Stamford, CT 06902-7700  
U.S.A.  
+1 203 964 0096

### **European Headquarters**

Tamesis  
The Glanty  
Egham  
Surrey, TW20 9AW  
UNITED KINGDOM  
+44 1784 431611

### **Asia/Pacific Headquarters**

Gartner Australasia Pty. Ltd.  
Level 9, 141 Walker Street  
North Sydney  
New South Wales 2060  
AUSTRALIA  
+61 2 9459 4600

### **Japan Headquarters**

Gartner Japan Ltd.  
Aobadai Hills, 6F  
7-7, Aobadai, 4-chome  
Meguro-ku, Tokyo 153-0042  
JAPAN  
+81 3 3481 3670

### **Latin America Headquarters**

Gartner do Brazil  
Av. das Nações Unidas, 12551  
9º andar—World Trade Center  
04578-903—São Paulo SP  
BRAZIL  
+55 11 3443 1509