

Restart: After Dell's departure, Triad gets a second shot at computer production with Lenovo

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Maybe you've heard this strategy before.

A global personal computer giant is running an assembly line in the Triad because officials are convinced they can be more relevant to consumers by making their product quicker, closer to key East Coast and U.S. markets and with software and hardware customization.

That's the business model on which Lenovo officials are resting an admitted "risky" initiative of producing ThinkPad laptops and desktops at the company's Whitsett facility. The company began production in late January and plans to complete the hiring of 115 employees for the operation by June 30. The assembly line cost \$2 million to build.

Jay Parker, the president of Lenovo's North America division, said the Whitsett facility will enable the company to make last-minute production changes or offer customized etchings of the laptop and desktop cases to help customers, particularly government agencies and universities, keep track of their inventory.

It's the same consumer motivation – quicker, closer, customize – that led Dell Inc. to build a \$110 million desktop-assembly plant in Winston-Salem – its third U.S. assembly plant at the time – that opened with great fanfare in October 2005 and closed unceremoniously in November 2010. The plant had at its peak a work force of about 1,400, including Dell employees and contract, vendor and supplier workers.

Analysts have said that once Dell determined consumers didn't want to wait even two days for a customized Dell – preferring to buy a PC off a retail shelf and plug it in right away – the production and marketing value of assembled in the USA went away.

Thomas Looney, Lenovo's general manager of its North America operations, acknowledged during Wednesday's grand opening that Lenovo will face comparisons to Dell's turbulent six-year presence in the Triad.

One key difference: Dell chose not to assemble laptops in Winston-Salem or its other U.S. plants, saying it was too cost-prohibitive compared with offshore options.

Although Looney and other Lenovo officials winced when asked if the company is borrowing from the Dell domestic-production playbook, they are convinced they can go down a similar production path and do it better.

"We looked at how Dell operated for more than a year," Looney said. "We determined their (production) scale and our scale would not be the same even as we identified similar goals.

“We’ve got to do business the way our customers want to do business, and that’s what this facility will give us – the flexibility and speed to beat our competition every day on the streets.”

‘A toe in the water’

Of course, that strategy was said in a similar vein by Dell officials in the recruiting and ramping up phases of its Winston-Salem plant.

For example, at the ground-breaking ceremony for the Dell plant in February 2005, Ro Parra, at that time the company’s senior vice president for the Americas, said that the computer-assembly plant would play a critical role in the future of both the company and the community.

“At Dell, it’s in our DNA to constantly find new ways to serve our customers more effectively and more efficiently,” Parra said. “This new factory is critical to meeting those needs because an increasing number of our customers are on the East Coast. By being in Winston-Salem, we will be able to serve our customers faster, more efficiently and more affordably.”

By starting small, with production in the hundreds of thousands of units annually, Lenovo will be able to measure if the facility helps the company crack what has been a tough U.S. marketplace.

Lenovo is on pace to overtake Hewlett Packard as the largest global PC seller, trailing by 0.1 percentage point (14.8 percent to 14.7 percent) as of March 31, according to Gartner data. By comparison, Dell was the world’s top PC manufacturer when it chose Winston-Salem for a plant in December 2004.

However, Lenovo is fifth in U.S. market share at 8.9 percent, trailing Hewlett Packard (24.2 percent), Dell (20.8 percent), Apple (11.6 percent) and Toshiba (9 percent).

Lenovo is based in China and entered the U.S. market in a meaningful way by buying IBM’s PC division in December 2004.

Like many consumer products in the sour U.S. economy, market-share gains in the PC industry appear to be more about taking customers from rivals than a net gain of overall sales.

“Consumers are migrating content consumption from PCs to other connected devices, such as tablets and smartphones,” said Mikako Kitagawa, principal analyst at Gartner. “Even emerging markets, where PC penetration is low, are not expected to be a strong growth area for PC vendors.”

Where Lenovo may have a viable niche with its assembled-in-the-USA strategy—just as Dell identified in the mid-2000s but struggled to maintain with its desktop-focused effort— is by focusing on corporate, government and educational sales.

“Unlike the consumer PC segment, the professional PC market, which accounts for about half of overall PC shipments, has seen growth, driven by continuing PC refreshes,” Kitagawa said. “Despite the fact that some regions already passed the peak of PC refresh, overall professional PC demand continued to grow.”

Whereas Dell's rigidity did not allow it to consider assembling laptops, tablets and servers in the Winston-Salem plant, Lenovo officials consider that making those products in Whitsett as key to its flexibility.

"You could look at this as a well-intentioned experiment or a toe in the water to see what is possible for Lenovo in the U.S.," said Steve Kleynhans, the vice president of mobile and client computing group for Gartner. "By starting smaller and with more product diversity, those are positive signs compared with the Dell strategy."

Factors in Lenovo's favors

Another factor benefiting Lenovo's domestic production push compared with Dell is the rising tide of labor and overall production costs overseas, particularly for Asian contract manufacturers.

Lenovo manufactures nearly half of its computers in its facilities, a much larger percentage than its competitors.

"While we have not totally closed the cost gap versus other countries, we're now in range," Looney said.

Michael Walden, an economics professor at N.C. State University, said Lenovo represents another high-profile example of on-shoring manufacturing production, particularly to meet customer demand in key markets.

"With stagnant U.S. wages, improved U.S. productivity and rising wages in China, a factory location in the U.S. looks much better than a decade ago," Walden said.

Walden cautioned that the number of on-shored jobs will be relatively small "because the return is still a trickle, and manufacturing production is still moving in the direction of using more machinery and technology and fewer people."

Lenovo's on-shoring initiatives is symbolically relevant as well as financially, said John H. Boyd, a principal in The Boyd Co. Inc., a site-location consulting company in New Jersey,

"The real significance here lies in the industry sector: electronics," Boyd said.

"While there is a lively debate going on in the academic world and among economist-pundits as to the true extent that re-shoring is taking place, nevertheless it is due to a number of factors. The fact that we are seeing a re-shoring in electronics is significant because these operations were the first to go throughout the 1980s and 1990s.

Boyd said another significant factor is the willingness of U.S. communities and their elected leaders to allow the electronic giants to include a significant number of contract and temporary employees in their workforce while still qualifying for millions of dollars in local and state incentives.

Lenovo isn't receiving any state or local incentives for expanding in Whitsett.

Those provisions provide corporations with flexibility in scheduling, hiring and production, Boyd said.

For example, Caterpillar Inc. opened a \$426 million axle-manufacturing plant in Winston-Salem in November 2011. In return, it was made eligible for up to \$52 million in local and state incentives.

Caterpillar has pledged to create 392 full-time and 118 part-time jobs when the plant is at full production. As of March 8, the plant had 371 employees, of which 191 were full-time Caterpillar employees. The company expects to convert more temporary and contract workers to full time this year.

“With the Affordable Care Act kicking in next year, this element of the incentive deal is even more compelling,” he said “Look for more of this in other incentive deals over the next few years where incentive deals include specific new-hire goals - which most do.”

“The point here is that there are a whole lot of jobs in this sector that could be re-shored to the States,” Boyd said.

Looney told local and state economic officials and dignitaries that selling PCs “is not an easy business.”

“When I came to this facility in January, I told the employees I was going to bring them to their knees. They all got real concerned.

“I told them I was going to bring them to their knees with orders so I could hire the next 115 and the next 115. I can tell you, I don't miss my commitments.”

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