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Gateway deal would challenge Lenovo

Lenovo would drop to fourth place in global market share with sale

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Lenovo, which has struggled to build North American computer sales, found itself under new pressure Monday after an Asian rival announced plans to buy one of the best-known computer brands in the U.S.

Acer, the Taipei, Taiwan, computer maker, said that it would acquire California-based Gateway for $710 million.

The deal could give Acer momentum in the important U.S. personal computer market, where it looks to take sales from Lenovo, a Chinese-owned company with headquarters in Morrisville.

"Whatever they were planning, they better now step on the gas," Roger Kay, a PC market analyst with Endpoint Technologies, said of Lenovo.

Acer's acquisition would drop Lenovo to fourth place in global market share. It could also force Lenovo to develop a more aggressive strategy -- which could include advancing the rollout of new products in the U.S. -- or look at other acquisition targets.

Lenovo, which entered the U.S. in 2005 with a big acquisition of its own -- IBM's Research Triangle-based PC division -- has been unable to turn that purchase into a major mass-market brand in this country.

An Acer-Gateway combination promises to make that task more difficult as the two Asian companies attempt to compete with Hewlett-Packard and Dell, which dominate U.S. sales.

The addition of Gateway would double Acer's U.S. market share to about 10.4 percent. Lenovo has about 5 percent.

The deal also would give Acer an iconic U.S retail brand, a sales Web site and some coveted shelf space at U.S. retailers such as Best Buy and Circuit City.

It might also block Lenovo from making an acquisition that it had been counting on to boost European sales.

Three weeks ago, Lenovo announced plans to buy European PC vendor Packard Bell. But Gateway has an agreement with John Hui, Packard Bell's largest shareholder, that gives Gateway the right of first refusal to acquire Hui's stake. The contract is part of a 2004 deal in which Hui sold eMachines to Gateway.

"We remain interested in Packard Bell and are reviewing our options," Lenovo spokesman Ray Gorman said Monday.

But Lenovo would have to invalidate the contract between Hui and Gateway to execute the deal, which seems unlikely from a legal standpoint, said PC market analyst Rob Enderle.

"But they may try," Enderle said. "The question becomes how painful does Lenovo want to make it for Acer."

Other possible acquisition targets include Sony, Toshiba and Fujitsu, which are now even more distant competitors behind HP, Dell, Acer and Lenovo. But those companies would likely be difficult to integrate and could introduce culture wars among Japanese management teams and Lenovo's mainland China executives, analysts said.

"Shelf space is already taken." Enderle said. "It's a lot harder to grow your presence organically than to buy your way into the consumer segment."

Lenovo, which employs about 1,400 people in the Triangle, has had some encouraging signs recently in the U.S.

In the past 18 months, it has signed sponsorship deals for sporting events such as the NBA playoffs and Winter Olympics. It also won marketing arrangements with retail chains such as Best Buy and Circuit City.

Revenue in the first quarter rose on higher sales through U.S. retailers. And PC shipments in the Americas rose 15 percent from a year earlier.

In the United States, Lenovo sells IBM ThinkPads, which it inherited, and Lenovo-brand PCs.

Some analysts said Monday that Lenovo could benefit in the short term if it could pick up business accounts shaken loose by any integration turmoil surrounding Acer's acquisition.

"But they'll have to ratchet up their U.S. consumer business and really nail the market with those products," said Richard Shim, an analyst with IDC.

To do that, Lenovo would have to expand distribution relationships begun in the past year with major retailers.

"That's a challenge, because in the United States, they're still virtually unknown," Shim said.

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