Written by Bob Snyder
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Lenovo and Compal's extraordinary decision to create a joint venture to build PCs begs this question: When do you stop outsourcing?

When a Tier 1 brand buys into its contract manufacturer, it's because competitive pressure means it is no longer possible for contract manufacturers to bear all the cost burden of building new plants.

Lenovo and Compal hope to, together, reach new lows in the cost of PCs... putting more pressure on other makers. That's why the new factory is located far away from traditional plants in coastal China. It's all about costs.

Lenovo comes from the IBM tradition of making its own stuff. Like HP, Dell and Acer, Lenovo outsources most PC production to contract OEMs. But unlike those other PC makers, Lenovo owns factories in China, India, Europe and the Americas. So why not just build another Lenovo factory? This new hybrid model will allow Lenovo to see if it can combine flexibility of ownership with cost-efficiency of outsourcing.

For Compal, it's all about reducing risk (a new factory when PC sales are in decline) and preserving cash.

No great deed goes by without repercussions in the PC industry: will this move trigger other

OEMs to discuss deals with their Tier 1 clients?

If Lenovo's move pushes new lows in price points, you can bet the industry will follow...

Go [Lenovo in $300M Joint Venture in China (FT.com, subscription required)]