

Lester electronics benchmarkin

[Business](#), [Marketing](#)



Lester Electronics, Inc. , (LEI) a publicly-held organization, is an electronics parts distributor which markets its products to small- and medium-sized original equipment manufacturers (OEM), repair facilities, and small local distributors throughout the Americas and Europe. The company has a 65-year contract with Shang-wa Electronics, a small private Korean manufacturer of capacitors, under which it has been given exclusive rights to sell Shang-wa capacitors in the United States (US).

Based on the terms of the contract, LEI must purchase at least \$1 million wholesale from Shang-wa annually. For 35 years this agreement, which must be renewed annually, has worked well for both organizations. However, due to the surge of globalizing in the recent years, LEI and Shang-wa have been approached by two large electronics equipment manufacturers and distributors, Transnational Electronics Corporation (TEC) and Avral Electronics, respectively, for potential acquisitions.

If Shang-wa were to be acquired by TEC, LEI would lose 43% of its revenues in the next five years and Shang-wa's owner would ultimately lose control over his company. On the other hand, a takeover of LEI by Avral would potentially eliminate a long, lucrative business partnership between the two organizations. A merger between the two organizations, as desired by the leaders of LEI and Shang-wa, would appear a logical strategy. However, realizing a merger successfully requires more than just an agreement on the strategy.

It does require effective organizational transformation of all aspects of the two entities including structure, resources, and culture. Nonetheless, there is

more than one alternative solution which Lester Electronics and Shang-wa may consider to address the present concerns and ultimately protect the interests of both organizations' key stakeholders. Alternative Solutions Option (a) would provide Shang-wa with the financial strength to address its growth requirements. It would also allow the organization to retain its business relationship with LEI at least for some time.

On other hand, the company does not presently seem to have the required organizational culture and structure to complete its Initial Public Offering (IPO) successfully or be successful as a public organization. If Shang-wa became a public entity, John Lin, the sole owner of the Shang-wa today, would lose his total control over the organization. He would no longer be able to make business decisions by himself as the Board members and the officers of the corporation would surely influence the decision-making process. Option (b) has the similar implications as option (a) but with a lesser degree.

Since LEI and Shang-wa have had a successful partnership over the years, LEI can provide the necessary resources to help Shang-wa complete its IPO initiatives successfully. It can additionally contribute to the development of Shang-wa's organizational culture so the firm would succeed as a public company. Financially, there would also be more opportunities available to both organizations for growth. LEI could retain its contract with Shang-wa, and Shang-wa would be able to raise a capital or bank finance to address its growth needs.

In this scenario, LEI would essentially become Shang-wa's white knight. Ultimately, LEI could take over Shang-wa which, based on the past business relationship, may be acceptable to the leaders of both organizations. Option (c) would mitigate hostile takeover but would not address the lack of capital that is required for growth. Nonetheless, both organizations would be able to create an optimal environment for exchanging knowledge and expertise leading to efficient processes and operations throughout the entire corporation.

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As an example, looking at the merger between Hewlett Packard (HP) and Compaq, the combined entity was ultimately able to satisfy both organizations' shareholders interests. Each company was individually successful in a specific computer market segment, with Compaq in Personal Computers (PC) and HP predominantly in UNIX servers, prior to merging. However, once combined, the entire corporation was able to improve its market share across the entire information technology (IT) industry. The key to the merger's success was the exchange of knowledge and expertise as well as strong resource capabilities throughout the entire corporation.

Moreover, from the resource distribution and knowledge transfer standpoints, LEI and Shang-wa could experience similar outcome by merging; however, the financial needs of the combined entity would not still be addressed. Such a decision would not entirely eliminate the potential hostile takeover of the combined entity by a larger firm in the future either. Option (d) would resolve Shang-wa's financial concerns for advancement;

however, it would also disconnect John Lin from a business that he has founded and successfully operated for nearly 40 years.

Such a business transformation would be considered a hostile takeover.

While hostile takeover has been a common business practice in the US in the last 25 years, it has been infrequent in other countries. Additionally, a few countries have even developed plans to neutralize such threats. For example, since the hostile takeover of Nippon Broadcasting System by Livedoor, Japanese companies have started to take defensive measures to keep unwanted suitors away (Ohno & Tsunematsu, 2005). LEI and Shang-wa can implement similar measures, by taking Shang-wa public, but issuing the controlling shares to LEI.

As an example, NIRECO Corporation implemented an aggressive measure of granting rights to existing shareholders, and eAccess issued rights under a structured trust arrangement. Such rights would be issued to a trustee who would hold them in trust until it transferred the rights to current shareholders at the time of a hostile bid. If Shang-wa is incorporated in Korea, there may be different laws that allow Shang-wa to give certain rights to some shareholders and not others. Lastly, option (e) would be detrimental to Shang-wa's survival and potentially LEI's as well.

Such a strategy would leave Shang-wa unguarded against a hostile takeover and LEI susceptible to losing steady revenues through its long-term contract with Shang-wa. As an example, Marsh Supermarkets Inc. , a Fishers-based company, faced a somewhat similar situation before it was recently purchased by Sun Capital Partners Group of Boca Raton Florida. Prior to the

merger, the supermarket had experienced many difficulties in the face of growing competition, poor management decisions, and lack of confidence in the management of company finances which ultimately forced the sale of the company.

The positive aspect of the merger, though, was that Sun Capital Partners has had a long history of taking smaller, struggling companies and turning them into profitable outlets. Some of the better known companies that are a part of the Sun Capital group today include Fazoli's, Brueggers Bagels, Sweet Tomatoes, and others who have become common, locally recognized businesses throughout the United States. Unfortunately, in the case of LEI and Shang-wa, the potential takeover of either company by a larger firm might not necessarily produce the same outcome as Sun Capital's takeover of Marsh Supermarkets.

Nevertheless, regardless of the strategy that LEI and Shang-wa would choose to respond to such an external threat, there would inevitably be risks that would require identifying and assessing by both companies in advance. Risk Identification and Assessment A hostile takeover of either organization by a large corporate firm would certainly minimize the control of the CEO's over their corresponding businesses. Such a business venture could potentially break up a long-term prosperous partnership between LEI and Shang-wa. On the other hand, both companies presently have financial needs to stay competitive.

If the two firms merge as they stand today, the opportunity to raise capital for future growth may very well be diminished. Moreover, merging after

Shang-wa successfully becomes a public entity, might present organizational and operational issues in the combined entity due to their individual structural and cultural differences. Conclusion If LEI loses Shang-wa as a manufacturer, it will lose 43% of its revenue over the next five years. If Shang-wa is taken over by a large corporation, its owner will likely lose control over the business.

Both business leaders recognize the need for a strategic decision to avoid takeovers by larger entities. The optimal solution to their problems, however, would inevitably be a timely merger between the two organizations. The merger between LEI and Shang-wa would inevitably require a significant transformation of organizational culture and structure, especially in Shang-wa's. There have been many mergers that have failed due to the lack of appropriate actions taken to address cultural and organizational differences.

There have also been many successful ones such as J. P. Morgan Chase and Bank One, HP and Compaq, Michael Foods of Minneapolis and Papetti's Hygrade Egg Products Inc. that properly addressed cultural, organizational, and employee developments while implementing the business transformation. Other big corporations such as Wrigley, sought innovation or, in the case of Washington Mutual, ensured organizational alignment with their expansion strategies before realizing such a business venture.

Ultimately, the leaderships of LEI and Shang-wa should realize that leading an organization to a successful business transformation would require more than just a clear strategy. It would need a strong organizational culture and commitment that would bond people together and make them feel part of

the transformation and organizational experience. It would ultimately require the organization to have an adaptive culture so all stakeholders would focus on the need for change and support the initiatives.