BALTLED

Lithuania, www.baltled.com

One of Lithuania's fastest growing SMEs invested in a long-term partnership with a Japanese company which led to the development of a joint product, the exchange of manufacturing know-how and the distribution of its products on the Asian market

Executive Summary

A Lithuanian SME persistently sought and established a strategic partnership relationship with a Japanese company. The purpose was twofold: learning - the company's management was impressed by the Japanese manufacturing culture which they wanted to adopt - and developing a sales channel to the Asian market which was beyond their reach. An interesting feature of this case is that the companies are quite similar in terms of products and target customers, size and their approach to business. In other circumstances you might expect such companies to be competitors.

CASE N°: EE30

SECTOR: MANUFACTURING

TECH INTENSITY: LOW-MEDIUM TECH

LIFE CYCLE STAGE: ESTABLISHED

INNOVATION VECTORS: PRODUCT, ORGANISATIONAL, DISTRIBUTION CHANNELS

OI PARTNERS: OTHER SME

KEYWORDS: Joint project, Japanese manufacturing culture, LED, joint distribution of products

- BACKGROUND FRAMEWORK
- INNOVATION CHALLENGE & MARKET OPPORTUNITIES
- OI TRAJECTORY
- BUSINESS IMPACT
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BACKGROUND

BaltLed is a fast-growing Lithuanian company which designs and manufactures light emitting diode (LED) lighting solutions. It was established in 2005 by Kestutis L., a young entrepreneur. He is known for managing his company in a non-traditional way as he believes in and values the uniqueness of people. He therefore encourages a collaborative team -work environment which helps employees to realize their potential.

BaltLed was one of the first on the market to change neon signage to LED. Already in 2006, they started exporting their products to European markets and now close to 90% of their sales are for export. In 2009, they were the first to introduce LED modules with optics. In 2012 the company entered the area of industrial lighting and lighting solutions for retail companies. It is one of the fastest growing companies in Lithuania with an average growth rate of more than 30% per year. In 2014 it won the “Business Gazelle 2014” award.

BaltLed has ambitious growth plans.

INNOVATION CHALLENGE & MARKET OPPORTUNITIES

According to Kęstutis, there are two challenges: to increase the value added of their work and to expand globally. To solve the first challenge BaltLed focuses on development and marketing, while manufacturing is outsourced to a large extent. They have established an in-house lighting R&D laboratory. To deal with the second challenge, BaltLed relies on partnerships. They have value added resellers and solution providers as their marketing partners.

In 2012, Kestutis was visiting one of his clients. He noticed a catalogue of First System Co, a Japanese company producing LED lighting products. His attention was immediately captured, because the catalogue featured products he intended to develop. He thought it would be interesting to see how First System developed them and how they were working. In addition, it was an opportunity to get some knowledge about the Asian market as so far BaltLed was not exporting to that region of the world. He took the initiative and contacted First System. Although the contact was ‘cold’, the managers of the companies agreed to meet.

OPEN INNOVATION TRAJECTORY

Concept development

The cooperation concept developed, or rather emerged, slowly. After their first meeting in Hong Kong, Kestutis and Masatoshi, CEO of First System, agreed to exchange visits to their respective companies. While Kestutis was impressed by First System’s manufacturing capabilities and quality, Masatoshi appreciated BaltLed’s design and R&D. Despite the geographical distance and cultural differences between Lithuania and Japan, both CEOs noticed that the companies had many similarities: they were about the same size (although the Japanese company had been established for longer); both companies decided to develop LED lighting solutions for signage about the same time; their approach to business was similar and they appreciated their business cultures.

They came to a conclusion that they could pool their resources, i.e. combine their product development and engineering knowledge, European design and Japanese quality and efficient manufacturing. It took, however, almost three years before they engaged in their first collaborative project.

The development process, IPR and competition strategy

Time passed, but still there was no real cooperation between the two companies. They had to move forward, or stop altogether. Kestutis thought that to move forward they had to undertake an experiment, a small joint development project. Although the objective of the project was a new line of signage products, they also wanted to learn how they could cooperate as well as establish communication and collaboration lines on an operational level. The development work involved many visits, discussions and development loops. They did not focus on immediate financial success, as if they had the collaboration would probably never have happened.

The companies exchanged know-how. BaltLed intends to concentrate on high value-added development work, while manufacturing to a large extent (about 70%) is outsourced to Lithuanian and Chinese companies. Nevertheless, they wish to keep manufacturing capabilities in-house because in some cases it is important for controlling risks, and it may be a source of competitive advantage. This insight was a result of their interaction with First System. Together, the companies are the biggest LED producer for signage suppliers. It allows them to pool development efforts, save on the procurement of supplies and agree on markets.

Commercialization and follow-up

As their development project was successful and their cooperation experience was positive, BaltLed and First System Co agreed in 2016 on a joint procurement procedure to enhance their purchasing capacity. Together, the companies are becoming the largest LED module developers and manufacturers for the signage market.

No new formal organizational arrangements have been made so far to accommodate BaltLed's close collaboration with their Japanese partner.

To expand their sales network and increase their product range BaltLed and First System agreed that their products would be released to the Asia region by First System and to Europe and the CIS countries by BaltLed. The companies also agreed on common sales targets. While discussing with First System, Kestutis understood the Japanese market is very specific and it is better to take advantage of their partner’s experience. They could sell more through them.

On the other hand, BaltLed was strong in Europe, they have sales channels and arrangements with partners for after-sales service. This arrangement was mutually beneficial. Together, they supply various types of LED lighting solutions for signs in more than 40 countries. Now and then it happens, that a European company asks First System to deliver some products or solutions. In such cases they are referred to BaltLed.

BUSINESS IMPACT

Through First System BaltLed acquired a sales channel in Asia. They improved their manufacturing process and quality management system. First System comes regularly to Lithuania to review the manufacturing process and make suggestions as to what could be changed or improved.

BaltLed learned how to build strategic partnerships; they developed a partnership philosophy which favours long-term cooperation; they learned how to establish communication and collaboration at operational level. They also learned Japanese approaches to manufacturing.

The result of the joint project was the production of the OPTO-X series of LED modules. These modules are marketed by both companies; the financial results are not known yet.

LESSONS LEARNED

This case is a rare example of an SME which patiently (it took three years to initiate the first collaborative project) worked on building a strategic partnership with a similar company (in terms of size, product range and business concept) in a remote geographical region. If the company had been closer, i.e. located elsewhere in Europe, this cooperation, as Kestutis admitted, would not have been possible. It is very likely that they would be fierce competitors. This cooperation resembles the type that many ICT companies put in place whereby they share sales channels and act as OEMs to each other, but for low and medium-tech SMEs it is not typical.

It is often difficult to clarify a common strategic interest. In many cases one partner is interested in cooperation much more than another. In this case both companies invested time and effort in clarifying what benefits they could have from cooperation. Both companies were very open in discussing their strengths and weaknesses, what they liked and what they did not. Through their discussions and visits they built trust.

Kestutis also noted that focusing solely on short-term results would have ruined the strategic partnership. Their return on investment of their first project was probably not very high, taking into account all the visits and time spent on the project. He finds that Lithuanian companies in general are not very inclined to collaborate as there is no collaboration culture. Instead of giving first, they are focused on obtaining immediate benefits. While this is fine for simple transactions (like selling or simple contracting services), this approach does not favour building (real) long-term partnerships.

Main lessons learned:

1. In collaboration, long-term partnership objectives should be not be overshadowed by short-term gains or losses. Patience is needed.
2. Time should be given to clarifying common interests and defining potential benefits, short-term and especially long-term.
3. Partners should think how they can help each other to become bigger.
4. The parties have to benefit from the partnership in the long run in roughly equal ways.
5. The partnerships should evolve from small projects to big ventures, from simple to complex.