

Lelon Electronics discovers the secret to fighting recession from the art of “making tea”

The 46-year-old company hit tens of billions in revenue for the very first time

Aluminum electrolytic capacitor leader sees double the gross profit margin, raking in cash in the first three quarters

“This piece is used for wind power generation, this one is for trains, and this one is used on the dashboard of cars, but it’s an old model. The current ones don’t look like this...,” explains Jimmy Wu as he gestures wildly across the display wall dressed in a polo shirt printed with “Lelon” across it.

- Established in 1976
- Chairman: T.C. Wu
- General Manager: Jimmy Wu
- Main Business: Aluminum Electrolytic Capacitors
- Annual Report: Revenue of 2022 is estimated to exceed NTD 10 billion, with NTD 6.35 EPS in the first three quarters
- Position: Leader of Aluminum Electrolytic Capacitors in Taiwan

You may have assumed he was a senior sales representative or someone from the R&D team, but he is the General Manager of Lelon Electronics and the son of Chairman T.C. Wu. But despite being so high up, he seems to play a key role in attending to the business based on his understanding of the first customer of each particular product, its applications and even down to the product’s external design.

Lelon Electronics has been established for 46 years and is currently the leading manufacturer of aluminum electrolytic capacitors in Taiwan. In 2022, when its competitors faced setbacks due to the recession, Lelon saw growth in its business, achieving a revenue that exceeded the 10 billion mark for the first time to reach NTD 6.35 earnings per share in the first three quarters, surpassing that of 2021.

When its industry peers drowned in the “Red Ocean”

Lelon was busy expanding its industry portfolio to replace Japanese factories

The key to its growth against the tide lies in the sufficient dispersion of its customer base and industry types, and the continuous exploration of new business opportunities.

Electrolytic capacitors have a history of hundreds of years, and despite being just a small component, are indispensable for everything from cars and airplanes to air conditioners. The unit price ranges anywhere from NTD 0.2 to thousands.

While its competitors faced pressure on profits and revenue due to the decline in demand for consumer electronics, Lelon Electronics successfully transformed to becoming the go-to supplier for Huawei, Nokia and other Tier 1 auto parts and medical equipment companies. In the first three quarters of this year, the company saw a mere 11% of its revenue coming from consumer electronics and home appliances, while automotive electronics, which accounted for the highest single application, only made up about 20% of it.

“I didn’t just see a single electrolytic capacitor, but an entire industry,” Wu says. When a perspective becomes different, ambition becomes different as well. But having the capacity to service customers across different industries is easier said than done.

“It is a good strategy to broaden and expand the industries of the customer base, because when the demand of a certain industry declines, the company’s foundation will not be shaken.” Although this is also a test of the vision of business owners, says a senior executive of a Japanese aluminum electrolytic manufacturer responsible for the Taiwan area.

Lelon started from a small factory in Dali, Taichung, and has since expanded from a monthly production capacity of only 30 million units to its current monthly production of 600 to 700 million units, a staggering difference of more than 20 times. In the past, it assisted many Japanese aluminum electrolytic capacitor manufacturers in its role as an OEM. It has come a long way from its humble beginnings of being strictly controlled as to how garbage should be disposed of to becoming the largest aluminum electrolytic capacitor manufacturer in Taiwan.

But Wu gradually discovered that Lelon was merely following the specifications of its customers’ catalogs to . As long as there were no short circuits and everything conformed to stipulated regulations, all he needed to think about was how to reduce costs. But when the industry changes, it would be faced with elimination if it continued to do the same thing.

“You’re fully aware that your competitors are cutting corners. So, do you follow suit?” says Wu. When the “red supply chain” rises, as long as Chinese manufacturers can come up with the specifications to snatch market share by slashing prices by 10-20%, there will be no end in sight to this bargain pressure. He realized that if Lelon failed to move towards the more premium market to compete with Japanese manufacturers, “the company might as well just shut down.”

Lelon began to replace Japanese manufacturers in transitioning into a supplier, with China’s Huawei becoming its first iconic customer. Back then, 100% of Huawei’s base stations used Japanese capacitors, but they intended to cultivate reliable non-Japanese suppliers, and Lelon stepped into the picture. However, it took a full two years before it became the third supplier, with the proportion of supply it provided reaching less than 5%.

The change of mindset from the expansion of point to surface

5 years of being ignored but persists in breaking into the automotive market

In order to set foot in the premium market, Wu needed to look further than just the single point in front of him. He used “tea” to make a vivid metaphor. In the past, Lelon’s products were like “tea bags,” and clients wanted “something that had the flavor of tea after brewing.” All they needed to do was have the tea bag ready and not mind anything else.

But in order to create high-value products, Wu needed to look further into the “tea culture” and not just at the tea bag itself. He needed to cover all bases, from the temperature and humidity of the tea planting environment, to whether it needed to be fermented after picking, to the selection of tea sets and the exact temperature needed to brew the tea, and even down to the aroma the tea needed to emit.

The shifting mindset from focusing on just a single point to expanding to an entire surface allowed Lelon’s gross profit margin to grow from less than 10% in 2005 to 31% in the first three quarters of 2022.

After breaking into Huawei, Lelon set its eyes on cars. However, the automotive supply chain was very closed-off, and clients were not the slightest interested in reaching out to new suppliers for aluminum electrolytic capacitors that accounted for less than 1% of the cost of the bill of materials. It was extremely difficult to break into the relevant supply chain, and despite trying for nearly five years, Lelon had next

to nothing to show for its performance.

“Could this (referring to for automotive purposes) really be done?” Not only was the confidence of everyone in the company wearing dangerously thin, he too was subject to frequent doubts by T.C. Wu. “I would have been fired a long time ago if I was just a General Manager and not the boss’s son,” says Wu.

But he felt that the automotive industry was a great opportunity for the electrolytic capacitor industry and one that shouldn’t be passed up. In 2006, despite netting a profit of only NTD 12 million after tax, Wu continued to invest millions into manpower, equipment and certifications for the sole purpose of being able to knock on the door of the automotive industry once again.

General Manager seizes business opportunities in the front line

Establishing a positive cycle by creating triple wins for all parties

While they continued to face the cold shoulder from the automotive industry, Lelon persisted, sending them regular reports on a yearly basis in an attempt to win their favor. It was not until 2011, when Japan was hit with the devastating Tohoku earthquake and tsunami on March 11th, that Lelon’s efforts finally paid off due to major Japanese manufacturers being unable to meet supply demand.

Not only did Lelon enter into the field of automotive applications, it further dipped its toe into the field of industrial equipment and medical device , gradually broadening the scope of its industries step by step.

In order to repeatedly win over clients from different industries, the first thing Wu did was a massive reading of various industry reports. His method was based on reading each field's most authoritative and representative reports as “all the world’s articles are references to each other.” Once he did that, he could just choose the main highlights of other reports to read.

The second thing that Wu did was to compare the reports with the “Army Pipeline.” The Army Pipeline refers to the various information collected from more than 300 of Lelon’s direct customers, and the thousands of indirect customers it represents. This information is then cross-compared with industry reports. Wu knew that the experts that created the reports looked at the overall situation and trends, but may not be entirely familiar with the details of individual industries.

Moreover, he even requested that to join in the meetings of Lelon's agents with its core clients to understand the needs faced by the industry's front line. This was not an easy task as agents worried about being "skipped over."

But Wu believes that this creates a triple win for the manufacturer, agent and client. He told the client that the agent could provide better service because it was impossible for Lelon to prepare inventory for each customer. This wasn't a business they wanted to step into anyway. In addition, "clients become more reassured in knowing they will receive their products" when they see that the agent is capable of inviting the General Manager of the manufacturer to attend the meeting.

This triple win would enable Lelon to provide products that better fit client needs, and agents would be more willing to share client information. A positive cycle of cooperation would then be established.

As Jenny Chang, Director of the Finance Department at Lelon, points out, it is precisely because Wu is willing to step into the front line that he can almost know who the product is sold to at first glance when he's at the factory. When abnormalities arise from clients requesting products, he can immediately ask his sales colleague the reason or simply call the customer to find out.

"He only feels tired when he's not being active." Wu personally flew out to Munich to attend the Electronic 2022 exhibition in November to get closer to potential customers, continues Chang.

Because he is so close to the first-line customers, he is able to respond quickly to seize business opportunities. During the pandemic, the agent reported that there was a certain order that was originally in a small quantity but became suddenly out of stock. While the agent was still figuring out the reason behind it, Wu had already discovered in advance that the aluminum electrolytic capacitor used in the battery insulation device of electric vehicles was a business opportunity that would surely grow several times over in the future.

During the pandemic, the supply of aluminum electrolytic capacitors was short and Japanese counterparts' delivery period extended from one season to more than half a year. In order to save time to make decisions quickly, Wu did not return to Taiwan for nearly 3 years. "I was afraid that I might end up needing to wait for several weeks like how the emperor or officials in court waited to receive the news. By then, the response would be long delayed," says Wu.

Knowing the importance of lead time to automotive factories, Wu told his colleagues that automotive customers had the first priority on lead time with a 2-month wait at most. He would rather displease other customers or pay for air freight delivery to Europe out of his own pocket than break his own promise.

As Lelon's peers are faced with a recession, it is relatively stable in comparison

Despite the presence of risk due to the concentration of production lines in China

This year, the second- and third-tier aluminum electrolytic capacitor manufacturers, regardless of their product prices or revenue, have seen a decline due to consumer electronics, while Lelon's performance has been relatively stable. It is precisely because of the transformation to high-value products and a variety of applications that they have been gradually able to compete alongside major Japanese manufacturers, says Kuan-Yu Lai, an analyst of President Capital Management. However, as its production capacity is concentrated in China, attention must be paid to risks such as stricter environmental protection regulations and rising electricity costs.

The change in perspective entails a change in mindset. The electrolytic capacitor is a highly mature industry. But when you no longer busy yourself with quick and simple tasks in front of you and try to look ahead instead, you will see a more expansive world filled with opportunities.