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## Case 2. Epistar

HHH Ch. 4. Business-Level Strategy

1) What was a big mistake in Epistar's initial IP strategy? Had you been a top manager of this company, how would you have done it differently?

- <sup>1</sup>Objectives for Epistar's patent:
  - Prevent imitators
  - Ensure design freedom
  - Signal that they were a legitimate business with respect for other's IP by making their own
- Epistar was late in the LED game, thus their strategy to "offer high quality, affordable products" using their initial intellectual property (IP) wasn't enough (Shih, Chien, & Wang, 2015, p. 1). This was one of their biggest mistakes as they forgot about user adaptability issues that may arise.
- Due to Epistar having a strong IP portfolio already, the only problem was how to get users to buy their product as it was too unique and new to use. It lacked user comfortability and adaptability measures. Due to this Epistar merged with United Epitaxy Company (UEC) in 2005, believing it was a safe and smart strategy.
- Based on Lumileds agenda to assert infringement against companies such as UEC and Epistar, it is apparent that Epistar did not take the necessary measures in their merger agreement to avoid potential conflict of interest. This is a security process they should have taken during cross-license negotiations to avoid merging the company's potential flaws.
- In 2001, UEC was sued for infringement under U.S. Patent number 5,008,718, the "718 patents" which led to the company agreeing to never challenge the validity of the 718 patents. After, a similar case was made against Epistar but didn't go far due to Epistar having multiple patents under their name. This led to Lumileds granting Epistar license for a large fee (Shih, Chien, & Wang, 2015, pp. 12-13). However, once Epistar merged with UEC, Lumiled's rights against UEC shifted to Epistar due to the two company's relationship. This became disastrous as they ran into many conflicts about whether or not UEC's ruling was valid for Epistar by simply merging.
- To avoid potential conflicts, it is important to have a thorough negotiation of what is being agreed upon when cross-licensing. Overseeing potential conflicts that may arise is key to protecting the company's image, property, and financials.

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<sup>1</sup> Shih, Willy, et al. "Epistar and the Global LED Market." *Harvard Business Publishing Education*, 8 June 2015, <https://hbsp.harvard.edu/product/615053-PDF-ENG>.

- 2) How did the company fix the problem associated with the initial strategic misstep? Do you believe that their solution will be effective?
- Epistar solved its initial misstep of problematic user adaptability by merging with United Epitaxy Company (UEC). One could say this solved many of their problems as the merger helped reduce manufacturing costs and increased production scale—leading the company to become Taiwan’s leading InGaN LED manufacturer and one of the world’s largest AlGaInP LED manufacturers after the merge. Perhaps it was the series of events that happened due to merging with UEC as in 2015, Epistar had 3.7 thousand patents under its wing—granted and pending.
  - <sup>2</sup>Furthermore, due to the many obstacles they had to overcome, their company has learned valuable lessons and is now doing extremely well. They have met their goals to sell globally and to important companies. Now they are selling to companies such as Apple, even being named “Apple’s top Mini-LED supplier” (Martinez). Based on the butterfly effect theory, these obstacles could have helped Epistar’s brand in the long run. <sup>3</sup>In 2015, they officially formed alliances with leading LED companies such as Lumileds, Cree, and Toyoda Gosei.
  - Due to their fight for legal rights with Lumileds, B.J. Lee, the chairman of Taiwan’s Epistar Corporation learned a valuable lesson in making connections. During their extensive ordeal with Lumileds, the two companies became rather familiar with each other which led them to make a settlement rather than go after each other. This also led them to cooperate.
  - However, by playing devil’s advocate, one could also say that this move caused more harm than good due to UEC’s ruling with Lumileds. Although Epistar eventually had 3.7 thousand patents and learned a good lesson about navigating the patent minefield with R&D, IP, and marketing strategists, it is not enough. Due to struggling with additional infringement cases along with Nichia Corporations, they had to pay a large fee for settlement and licensing. Their company had to go through more strenuous acts due to their agreement with UEC, almost permanently tarnishing their relationship with Lumileds as Epistar and UEC were not the same company even with the merge. One wrong move from B. J. Lee, the chairman of Epistar, the company could have tarnished their company image or faced an even stronger suit.
- 3) Since 2014, there has been a chicken game in the global LED industry. Do you think that Epistar will become a winner at the end of the chicken game?
- There is a high probability that Epistar could win in the global LED industry chicken game. The industry has risen from the bottom, previously known as a late player and only having its faulty unique IP strategy in the very beginning. Currently, they have mergers and

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<sup>2</sup> Martinez, Samuel. “Apple Could Be Adding More Mini-Led Display Suppliers and Boosting Production for Its New Devices.” *Pocketnow*, 4 Mar. 2022, <https://pocketnow.com/apple-could-be-adding-more-mini-led-display-suppliers-and-boosting-production-its-new-devices>.

<sup>3</sup> “Epistar’s Merger and Alliance Strategies.” *LEDinside*, 8, Dec. 2015, [https://www.ledinside.com/news/2015/12/epistars\\_merger\\_and\\_alliance\\_strategies](https://www.ledinside.com/news/2015/12/epistars_merger_and_alliance_strategies).

alliances with multiple players in the same industry while having notable companies rely on their resources.

- <sup>4</sup>Along with being one of the most successful waterproof LED module companies today, named alongside Nichia and Samsung, the company also has a notable list of buyers for its LED supply services, most prominently, Apple and Samsung. As of 2022, Apple's foreseeable demand for Epistar's mini-LED display services will significantly increase.
- Furthermore, Epistar has gone through a series of mergers and alliances with other electronic companies and still has made a formidable name for itself in the LED industry, merging with six LED companies over the past decade and forming alliances with leading LED companies. <sup>5</sup>Recently, in 2020, they merged with Lextar Electronics, another prominent LED manufacturer company, creating Ennostar.
- To have numerous ties with other companies, Epistar is now viewed as a formidable company. In the past, they were rather inexperienced but as we see now, they have been forming relations left and right due to their company growing beyond what was imagined when they first originated. With its many ties to other notable companies, the company does not seem too far off from winning the chicken game.

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<sup>4</sup> Mark. "Waterproof Led Module Market – Increasing Demand with Industry Professionals: Nichia, Samsung, EPISTAR, SSC." *The Sabre*, 16 Mar. 2022, <https://www.marianuniversitysabre.com/2022/03/16/waterproof-led-module-market-increasing-demand-with-industry-professionals-nichia-samsung-epistar-ssc/>.

<sup>5</sup> "New Holding Company of Epistar and Lextar Named ENNOSTAR." *LEDinside*, [https://www.ledinside.com/news/2020/7/epistar\\_lextar\\_ennostar](https://www.ledinside.com/news/2020/7/epistar_lextar_ennostar).