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WORLDWIDE CASE COMPETITION

Sample Case Analysis #2

Qualification Round submission from the
2016 NIBS Worldwide Case Competition, San Antonio, Texas, USA

Case: *Mindray Medical International Limited: Going Global from China*

EXPANSION OF MINDRAY MEDICAL

The Symbiotic Acquisition

Submission prepared for the Qualifying Round of the
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Synopsis

Mindray Medical, China's second largest medical products manufacturer, has achieved international growth thanks to strength in distribution, manufacturing efficiencies, and R&D. The company now seeks to capitalize on the world's largest market for medical devices—the United States. To date, this has been hindered by unique characteristics of the U.S. health care industry that set it apart from virtually all of the company's current markets. Although there are several feasible options, we recommend that Mindray acquire Datascope in order to provide the cultural savvy, market knowledge, and direct sales distribution channels that the company currently lacks.

Situation Analysis

Analysis of Mindray's current situation points to three key issues. (See Appendices 1-3 for complete internal and external analyses.)

Internal Analysis

Mindray's extensive intellectual property base is a direct result of the company's excellence in research and development. Aggressive efforts to target new graduates have allowed it to acquire a highly skilled R&D team. Its manufacturing base in China also constitutes a significant advantage vis-à-vis international competitors due to low labor costs. Despite these competencies, Mindray's inability to meet the sales/distribution and technical requirements of the U.S. market highlights the company's shortcomings and the challenge it faces in seeking to increase its presence in America.

External Analysis

The current U.S. distribution strategy is falling short, which threatens the company's long-term growth. Reliance on national distributors for low/mid products is hampering sales in this segment, which has enormous potential. Likewise, use of local distributors for high-end products, where Mindray competes against the U.S. "Big 3", is proving ineffective. The direct sales model that is the norm in the U.S. reflects a strong local preference for need-tailored sales—something that is difficult to achieve when using distributors. The current model also inhibits the creation of strong customer relationships that would improve brand recognition. As a result, relative to its key competitors, Mindray is not a trusted company or brand.

Significant cultural and industry differences between China and the U.S. pose a threat to Mindray's growth in the American market. The private health care model used in the U.S. has historically generated higher sales growth than the public model common in other markets. Due to its production cost advantage, Mindray has the potential to enjoy significant gains in volume by targeting price conscious, bottom-tier institutions there, while also leaving the door open to future growth in other segments. Another key difference is that, in the U.S., technicians—not doctors—are typically the operators of the equipment. This requires a different approach to sales. Finally, America is characterized by a more individualistic culture than many other countries, meaning that Mindray needs a different approach to human resource management than it is accustomed to in China and elsewhere.

Takeaways: Key Priorities for Mindray

Overall, these barriers point to four key priorities and decision criteria that Mindray should focus on to ensure success in the U.S. market (see Appendix 4):

1. Increase U.S. acceptance of products
2. Cultivate more effective distribution channels
3. Stimulate U.S. sales
4. Enhance cultural awareness within Mindray

Alternatives

We have identified three options for achieving these objectives. See Appendix 5 for detailed pros and cons of each.

Improve Sales Force

Employing existing recruiting tactics, Mindray could hire and train significant numbers of new graduates from U.S. universities to work as company sales representatives. These individuals would work on commission and be given the flexibility to work the hours they want. This would leverage the trend of on-demand services, directly align costs with revenues/profits, and build a sales force of individuals who are familiar with American cultural practices. The drawback is that this model could result in uneven commitment from sales representatives, open the door to talent poaching, and generate a strong competitive response from existing players.

Design / Manufacture for Established Players

Mindray could approach a handful of large companies in the medical equipment industry and offer to R&D and manufacturing expertise to create products for segments that these companies have yet to target. For example, Siemens does not offer products for In-Vitro Diagnostics and Patient Monitoring devices, so Mindray could help them reach new market segments while leveraging its low-cost manufacturing capabilities. Partner companies would pay royalties to Mindray, and sell products under their own brands using their own distribution networks. This would allow Mindray to focus on its core competencies of manufacturing and R&D, and enhance profits without having to worry about U.S. distribution barriers. However, this alternative does nothing to improve brand recognition in the USA, and surrenders a significant portion of profits to the partner companies. It also gives competitors an opportunity to learn from Mindray, potentially cutting the company out in future.

Acquire Datascope

The final option would see Mindray offer to acquire Datascope with a 15% premium on current share price. The combined firm would leverage Datascope's established distribution channels in the U.S. and Europe, along with its cultural know-how and brand recognition. The goals and strengths of both companies thus align well: Datascope currently lacks world-class R&D, while its 50% market share of small-medium hospitals in the U.S. is a significant benefit to Mindray. This alternative has potential complications, however, such as increased complexity of cross-border operations, and enormous internal cultural integration difficulties. It should also be noted that, historically, these types of acquisitions have high failure rates.

Recommendation

After assessing the alternatives (Appendix 6), we recommend that Mindray acquire Datascope. This option gives Mindray access to significant U.S. market share, an established distribution network, and a good understanding of local product requirements. It also provides Mindray with cultural insight into the U.S., which should also translate into sales growth (see Appendix 7).

Implementation Plan

Our 2-year implementation plan includes specific calls to action for key functional areas (Human Resources, Sales, Management, and R&D) to ensure successful implementation of the Datascope acquisition (Appendix 8).

Acquire

A financial valuation of Datascope should be performed and a formal proposal prepared. Mindray should also conduct a resource audit to identify gaps and how these will be met by Datascope's competencies. Finally, the R&D and manufacturing teams should identify what technical specification requirements are needed to adapt products for sale in the U.S.

Integrate

After six months, the acquisition should be finalized and steps taken to ensure successful integration of both companies' operations and culture. The combined entity should adopt a 'Champion Program' to facilitate the integration of executives and coordinate strategic direction. From an operational standpoint, inefficiencies and redundancies will need to be eliminated and Mindray's products rolled out to U.S. customers through Datascope's existing channels. This will involve a gradual corporate and product rebranding to the Mindray name.

Compete

After one year, Mindray should update key performance indicators to evaluate the success of the acquisition. Sales tactics and core competencies of both companies should be shared across regions to ensure quality, standardize processes, and improve efficiencies.

Expand

After two years, Mindray should review, monitor and plan for continued expansion. Datascope's products can be distributed in Asia, Latin America and Africa using Mindray's networks, while Mindray's products can utilize Datascope's European channels.

Financial Considerations

Mindray should pay for the acquisition using $382.2 million (USD) cash, and $281.66 million using funds raised from a bond issuance. This ensures that Mindray will retain a $50 million cash reserve to serve as working capital. The bonds will carry a 5% annual coupon with the principal due in 10 years (Appendix 10).

Risks and Contingency Plan

The recommended strategy carries three main risks (Appendix 9).

First, there is the possibility that Datascope will reject the bid. We consider this to be unlikely due to the high premium on market cap being offered. If this arises, Mindray should increase the premium offered, within reason.

Secondly, there is potential for cultural conflict within the combined organization. To mitigate this, the two companies should initially operate as separate subsidiaries reporting to a new holding company with an executive board led by a subset of Mindray's current board.

Finally, there is a risk of misalignment in performance metrics between both companies. This can be addressed by closing underperforming business units of Datascope and adopting the best practices of each subsidiary across the entire organization. In the immediate term, Mindray should also take steps to increase manufacturing capacity to support the anticipated increase in demand generated by Datascope's sales channels.

Expected Outcomes

We anticipate that Mindray will average 30% in revenue growth in the U.S. market year-over-year, and estimate a net present value of $654 million for the acquisition after five years. Some 72% of revenues are expected to come from the U.S. post-acquisition due to Datascope's significant U.S. revenue stream. Finally, we forecast that Mindray will increase institutional customers by 20 clients, and establish partnerships with two key institutions in the United States. More generally, we expect the core competencies of both companies to combine well, allowing Mindray's products to reach new markets, while increasing operational, sales and distribution efficiencies, and improving the company's ability to meet the demands of an increasingly diverse customer base.

Appendices

Appendix 1: Porter's Value Chain (Internal)

SECONDARY ACTIVITIES	INFRASTRUCTURE	HUMAN RESOURCES MANAGEMENT	TECHNOLOGY	PROCUREMENT
	Competitive Disadvantage – Lack of long-term strategies to deal with cultural diff.	**Competitive Advantage –** Effective talent acquisition and productivity per capita.	**Competitive Advantage –** Innovative, efficient, develops products quickly.	**Competitive Disadvantage –** Poor choice of distribution channels that not effective outside of China

<table>
<tr><th rowspan="2">PRIMARY ACTIVITIES</th><th>INBOUND LOGISTICS</th><th>OPERATIONS</th><th>OUTBOUND LOGISTICS</th><th>MARKETING & SALES</th><th>SERVICE</th></tr>
<tr><td colspan="2">Competitive Advantage – Provides low-cost manufacturing and is able to obtain highly intelligent and hard-working staff</td><td>Competitive Parity – Exported goods equates to 60% in this category (in China). Small portion of exports reaches North America.</td><td>Competitive Parity – Adhoc sales strategies with minimal research prior to penetration into other culturally different markets. Also, brand recognition is low outside of China</td><td>Competitive Parity – Customer service and inquiry limited to only China and lacks presence in other markets.</td></tr>
</table>

Appendix 2: SWOT Analysis (Internal / External)

	ANALYSIS	STRATEGIC ACTION
STRENGTHS	• Second largest medical device manufacturer in China • Products account for 60% of all medical devices exported from China • Achieved 80% of the capabilities of European or American counterparts at a cost less than one fifth • Largest R&D team of any medical device manufacturer in China • Holds over 610 patents (100 which were international) • Operates within 12 international markets • Previous experience working as a distributor for large global healthcare giants (GE, Philips, and Siemens)	**Action:** Mindray must leverage their core competency of low-cost R&D to effectively compete in global markets.
WEAKNESSES	• Using inappropriate distribution channels for specific product lines (national = low-mid products; local = high-end products) • Sales force does not have appropriate skills to compete within the U.S. • High-end products can't compete with established competitors • Operations within China lead to poor cultural awareness of the U.S.	**Action:** Mindray must optimize distribution channels to account for lack of presence in the U.S.
OPPORTUNITIES	• China offers low cost labour force, • United States offers 42% of global demand of medical devices • Acquisition of Datascope provides resources within American markets • International CAGR of 70% over 5 years while domestic is 37%	**Consider:** Datascope seems to provide easy access to U.S.
THREATS	• 21% fail rate of cross-border acquisitions • Competitive rivalry is high with competitors having more capital than Mindray • Different technological requirements within the United States • Competitors have established distribution channels • End user within the United States is different than China • Saturation within China as identified by low CAGR	**Action:** Mindray must utilize R&D to create products that are tailored towards local requirements and specifications.
KEY TAKEAWAYS	Mindray current cost-effective R&D and supply chain have worked well in China; however, must be modified to compete against well-established companies that dominate the U.S.	

Appendix 3: PEST Analysis of the U.S. (External Analysis)

	ANALYSIS	STRATEGIC ACTION
POLITICAL/ LEGAL	• Lack of public health care • Specific licensing standards are required • Stricter U.S. labour laws compared to China	**Action:** Private health care model in the U.S. contains higher sales volume **Consider:** Low-cost manufacturing cannot be performed in the U.S.
ECONOMICAL	• Highest healthcare spending globally (42%) • High spend in health care services/ capita • Healthcare providers have larger budgets as they are private	**Action:** The U.S. is an extremely attractive market that must be capitalized on.
SOCIAL/ DEMOGRAPHIC	• Sales force is motivated by different goals (U.S. = Individualistic; China = Collectivist) • Aging population requires increased demand for healthcare services	**Consider:** Current motivational are ill-fitted to Western sales force. However, there is an increased need for health care services that cannot be ignored.
TECHNOLOGICAL	• Advanced technological requirements (requires digital transmission, modularity, fully integrated, and breaks down data) • Healthcare spends above-average on R&D investments compared to the global market	**Action:** Mindray should modify existing product line to fit software needs of the U.S. health care market
COMPETITORS	• High competition within the high-end product segment	**Consider:** Due to the size of major competitors, high-end product segment should be avoided
KEY TAKEAWAYS	Although the U.S. is extremely attractive, Mindray's current product and sales strategy are not adequate to serve this market.	

Appendix 4: Key Decision Criteria

Barrier	Key Decision Criteria	Rationale
Varying Consumer/ Technical Requirements	**Domestic Acceptance of Product**	Mindray's low/med range products do not provide the technical specifications required by U.S. health care technicians. **Implication:** Failure to adopt to varying consumer/technical requirements will result in further failure to penetrate U.S. markets. Ultimately diminishing brand value and an inadequacy to obtain market share from competitors. **Key Success Metric:** Health provider adoption rate
Weak Transference of Supply Chain	**Effective Distribution Channels**	Distribution channels within the U.S. are ineffective as they use national distributors for key products (low-med) which make it difficult to identify the major needs of end users—while local distribution is used for highly competitive product segment (high). **Implication**: Failure to improve distribution result in low product sales & adoption rate. **Key Success Metric:** Growth in U.S. Sales
	Global Sales	Current sales force is not affluent with cultural requirements of American market. **Implication:** Due to poor distribution channels, an inexperienced sales force results in poor product performance and lack of brand awareness in foreign markets. **Key Performance Indicator:** Sales revenue in U.S. market
Cultural Differences of Western Countries	**Cultural Awareness**	China and U.S. are inherently different. Mindray has mainly been successful in countries which are similar to China and have struggled to tailor their practices to different global markets. **Implication:** Failure to understand and adapt to different cultures inhibits Mindray from effectively building relationships within the U.S. to grow sales. **Key Success Metric:** Developed U.S. partnerships

Appendix 5: Analysis of Alternatives

	1 – Improve Sales Force	2 – Design / Manufacture for Others	3 – Acquire Datascope
PRO	- Sales force expense driven by quantity of sales and commission - Local representatives know the consumer's needs the best - Relatively fast implementation timeline	- Distribution is done by larger companies with more capabilities in this area - Allows Mindray to focus on core competency of developing - Helps achieve manufacturing economies of scale	- Datascope is training at a lower price per earning and a lower EV to EBITDA (cheap to acquire) - Clear synergies between core competencies and target market - Previous working relationship - Leverages Datascope's experience/success in U.S.
CON	- Difficult to manage training - Unreliable commitment from sales representatives - Difficult to obtain adequate amount of representatives	- Mindray brand is not present within the U.S. - Difficult to keep up with demand - Long term conflict of interest	- Uncertainty of success of acquisitions - Operational complexity due to global operations - Cultural integration

Appendix 6: Ranking Alternatives based on Key Decision Criteria

	1 Improve Sales Force	2 Design / Manufacture for Others	3 Acquire Datascope	RATIONALE
Domestic Acceptance of Product	2	3	4	**Improve Sales Force / Design & Manufacture –** Products are still manufactured within China with little focus and modification to product to meet requirements of U.S. **Acquire Datascope –** Provides highest level of client acceptance of product as Mindray can leverage Datascope's local expertise and current U.S. product to meet technical specifications required by technicians.
Effective Distribution	3	4	5	**Improve Sales Force –** Use of on-demand salesforce/ representatives may not be able to effect **Design & Manufacture –** Utilizes established channels of major competitors; however, in target markets that Mindray does not traditionally focus on **Acquire Datascope –** Utilizes already established distribution channels to reach low-med hospitals (as Datascope maintains 50% of market share in the U.S.)
Global Sales	3	5	4	**Improve Sales Force –** Lack of training makes it difficult for representatives to sell expensive equipment **Design & Manufacture –** Products reach high-end buyers since Mindray uses brand of major competitors **Acquire Datascope –** Uses Datascope's brand image and effective sales forces (i.e. 50% of market share in low-med hospitals in U.S.) to further promote and sell Mindray products
Cultural Awareness	5	2	4	**Acquire Datascope & Improve Sales Force –** Utilizing local companies/sales reps allows MindRay to capitalize on local expertise currently not known. **Design & Manufacture –** Continue to only manufacture within China and will not be aware of U.S. needs
TOTAL	13	14	17	We recommend that Mindray acquire Datascope as it best satisfies the key decision criteria.

Appendix 7: Current vs. Proposed Organizational Structures

	CURRENT MINDRAY	NEW ORGANIZATIONAL STRUCTURE BASED ON ACQUISITON
Centralized	All functional areas (e.g. sales team, R&D, HR, etc.) are performed centrally within China which has caused problems with adapting to U.S. culture and preferences.	Corporate strategy will be determined centrally to consider both companies. Also, Datascope's R&D will be centralized to Mindray's existing R&D operations to achieve economies of scale.
Decentralized	N/A – All business functions are performed within China	Sales, HR, and Finance will operate independently under each subsidiary to account for cultural sensitivities.

Appendix 8: Implementation Timeline

	ACQUIRE – NOW	INTEGRATE – 6 MONTHS	COMPETE – ONE YEAR	EXPAND – TWO YEARS
HR	- Conduct an internal resource audit - Identify resource gaps that must be filled	- Conduct 'Champion Program' by integrating management from Datascope and Mindray - Reallocate resources based on new organizational structure - Create performance metrics and provide training	- Evaluate performance based on formalized metrics and hire as needed	
SALES	- Identify technical specifications required within the U.S.	- Create marketing campaign based on needs - Full deployment of products in the U.S. based on Datascope	- Adopt sales tactics from Datascope to ensure continued growth in China	- Identify areas similar to the U.S. to further expansion
MGMT	- Prepare a formal proposal and business case for Datascope acquisition - Inform current Mindray employees of the acquisition	- Maintain relationships with key Datascope executives - Ensure constant communication and integration of culture	- Identify key U.S. institutions to partner with and exploit for further penetration into the U.S.	- Identify new areas to expand operations
R&D	- Develop business requirements of U.S. technicians	- Eliminate redundant suppliers and contracts from both companies - Obtain consumer feedback of product in the U.S.	- Research and develop new products	

Appendix 9: Risks

RISKS	LIKELIHOOD	SEVERITY	MITIGATION
Datascope board rejects the acquisition offer	MEDIUM	LOW	Increase premium offered on the acquisition's value
Organizational conflict between Mindray and Datascope	HIGH	HIGH	Create a holding company based in the U.S. that has both companies operating as subsidiaries and an executive board that is split between both company's former senior leadership (60% for Mindray and 40% from Datascope)
Misalignment of performance metrics between the two companies	MEDIUM	HIGH	Adopt a strategy that shares resources by closing any underperforming business units in Datascope and expanding Mindray's capacity to supply Datascope where necessary.

Appendix 10: Valuation, Cost of Acquisition and NPV of Acquisition

MindRays Revenues in USD:	
Global Revenues	$2.23 Billion RMB
1 RMB = 0.16 USD	* 0.16
USD Revenues	$356. 8 Million USD

Mindray's Cash Earnings:	
Revenues (In Millions USD)	356.8
Net Income Margins	29.50%
Net Income	105.256
Depreciation/Amortization as a percentage of Revenu	6.20%
Add back Depreciation	22.1216
CapEx as a Percentage of Revenues*	1.70%
Deduct CapEx	-6.07
Cash Earnings for 2007	121.31

Assumptions for cash earnings:	
Datascope Amortization/depreciation = 2006	
EBITDA (49.07) - 2006 Net income before items XO	
(25.84)	23.23
Divided by 2006 revenues	/373
Amortization/depreciation as a % of Revenues	6.20%
Datascope CapEx	6.26
Divided by 2006 revenues	/373
CapEx as a percentage of revenues	1.70%
*Assume that Mindray has similar amortization/depreciation and capex as a percentage of revenues as Datascope, as they are	

Mindrays estimated Cash:	
Cash From IPO	$311 Million USD
Cash Earnings from 2007	$121.31 Million USD
Total Cash	$432.3 Million USD

Price of Aqusition:	
Datascope's Market Cap	$577.36 Million USD
Add 15% premium	* 1.15
Purchase price:	$663.96 Million USD

Capital for Purchasing DataScope:	
Cash: To leave Mindray with $50 Million Cash Reserve	$382.3 Million USD
Debt (Assume 10 Year 5% Bonds issue	$281.66 Million USD

Valuation Metrics for Datascope			
	2004	2005	2006
Market Cap: (In $Millions USD)	716.17	493.45	557.36
EV (In $Millions USD)	692.03	454.87	524.73
Earnings per Share	$1.58	$1.42	$1.69
Price of Share:	$39.69	$33.35	$30.84
EBITDA	50.54	46.91	49.07
Earnings growth (%):	9.72	-10.13	19.01
EV/EBITDA	13.69	9.70	10.69
Price/Earnings	25.12	23.49	18.25
PEG ratio (P/E / growth percentag	2.58	N/A due to negative grow	0.96

Earnings Projections:					
	Historic: Intl rvenenues				
	2003	**2004**	**2005**	**2006**	**2007**
International Revenues	113	238	452	736	1128
Growth YoY	N/A	110.62%	89.92%	62.83%	53.26%
Annnual decline in revenue growth percentage (As International Markets get saturated, growth slows down)			20.70%	27.08%	9.57%
Compounded Annual decline in revenue growth = r:	110.62% * (1+r)^3 = 53.26%				
	r = -21.6%. Therefore the annual growth rate of revenues declines at a rate of 21.6% if compounded annually				
Projections of incremental Earning from Acquisition	**2008**	**2009**	**2010**	**2011**	**2012**
Previous year revenues: (In Millions USD)	373	528.76	701.88	882.05	1059.61
Mulitplied by Growth rate adjusted for declining growth:	53.26% *(1 - 21.6%) = 41.76%	41.76% *(1-21.6%) = 32.74%	32.74% *(1-21.6%) = 25.67%	25.67% *(1 21.6%) = 20.13%	20.13%*(1- 21.6%)= 15.78%
Multiply by:	1.4176	1.3274	1.2567	1.2013	1.1578
Incremental revenues: Assuming that Mindray is able to grow revenues from Datascope at same growth rate it has been able to for its international revenues (In Millions USD)	**528.76**	**701.88**	**882.05**	**1059.61**	**1226.82**
Net income % - Assume it stays the same as 2007	29.50%	29.50%	29.50%	29.50%	29.50%
Net income:	155.98	207.05	260.21	312.58	361.91
+ Depreciation (6.2% of revenues)	32.78	43.52	54.69	65.70	76.06
- CapEx (1.7% of revenues)	-8.99	-11.93	-14.99	-18.01	-20.86
- Interest on bonds (5% of 281.66 million)	-14.08	-14.08	-14.08	-14.08	-14.08
Cash Earnings:	**165.70**	**224.56**	**285.81**	**346.18**	**403.03**
Dicount rate	1.05	(1.05^2)	1.05^3	1.05^4	1.05^5
Discounted value of cashflows:	**$1,208.98**				
NPV: - cash used for purchase + Discounted cashflows for 5 years - bond payback in 10 years (Everything discounted at 5% per year, using bond interest rate)					
NPV: (All in Millions)					
- Cash	-382.3				
+ Discounted cashflows	1208.98				
- Bond principal of ($281.66 million) payback in 10 years discounted at 5% Per year	-172.91				
NPV of acquisition:	**$653.76 Million USD**				