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WORLDWIDE CASE COMPETITION

Sample Case Analysis #3

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

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

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MINDRAY MEDICAL INTERNATIONAL LTD.

Going Global from China

Submission prepared for the Qualifying Round of the
2016 Network of International Business Schools
Worldwide Case Competition
St. Mary's University

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Word count: 1,401

Management Summary

The industry for medical device manufacturers is highly competitive. As the second largest player in the Chinese market, Mindray Medical International Limited wants to further penetrate the US market, which is the largest one with 42% of global healthcare expenditures worldwide.

Considering the situation, we propose the following alternatives:

1. Acquisition of Datascope
2. Go-it-alone approach
3. Merge with Datascope
4. Joint Venture with Datascope

After careful evaluation, we recommend the full acquisition of Datascope, an American medical device manufacturer. By making use of existing know-how, infrastructure and experiences, this alternative has the most potential to succeed considering the rather high risk of failure in this sector.

Issue Identification

In a highly competitive industry, how can Mindray Medical International Limited successfully expand its business efforts from China to the US, the largest market for medical devices worldwide?

External Analysis

PEST

With the ongoing trend of globalization, the amount of cross-border mergers and acquisitions from China are increasing, although the general rate of success of these mergers and acquisitions is only 23%. In the US, medical devices are subject to higher requirements for product quality and therefore customers are in general less sensible to product costs compared to China. These aspects, linked with the fact that these devices are operated by professional technicians rather than doctors, provide a significant difference in these cultures. (For the full analysis please refer to Appendix #1.)

Industry Environment (Porter's 5 Forces)

As previously mentioned, the industry rivalry for medical devices is especially with the 'Big Three' very strong. This is due to relatively similar product qualities of the major competitors. (Please refer to Appendix #3 for an overview of the key global competitors.) Because of the high investments for R&D and the need for qualified personnel, the risk of new entrants is rather moderate. Very specific requirements from the customers keep the threat of substitutes to a minimum; however a high price sensibility linked with the high requirements for functionality and performance result in a quite high bargaining power of buyers. (For the full analysis of Porter's Five Forces please refer to Appendix #2.)

Internal Analysis

The largest and most skilled R&D team along with the low-cost technical expertise, labor, raw materials and facilities are the key strengths of Mindray Medical International Limited. The intense Chinese work culture and therefore the high cultural differences compared to other countries are the key weakness. An

aging population and therefore an increasing need for medical attention is one of the biggest opportunities. The possibility of new or stronger political and legal restrictions or requirements results in the key weakness. (For the full SWOT analysis please refer to Appendix #4.)

Alternatives

Considering the SWOT combination we identified the following as the most feasible alternatives:

1. Acquire Datascope
2. Go-it alone
3. Merge with Datascope
4. Establish Joint Venture with Datascope

With the total acquisition of Datascope, Mandray can penetrate the US market with the 100% subsidiary 'Datascope' and therefore already benefit from existing infrastructure and brand-awareness. The cultural differences and generally low success-rate of mergers and acquisitions present the key downsides of this alternative.

The Go-it-alone approach maintains the current course of action while increasing the efforts. The high independence in decision making on one hand and the lack of experience in the US market on the other are the main aspects that need to be considered here.

Merging with Datascope would require less capital than the acquisition, but also has most of the risks of the acquisition and also impairs the level of decision making of Mindray.

The Joint Venture would be a new organization solely focusing on the US market. The advantage of this is the low risk for both firms, while on the other hand still requiring a high organizational effort and not benefiting from existing brand-awareness. (For a detailed explanation of the alternatives please refer to Appendix #5.)

To evaluate these alternatives, we used the criteria described in Appendix #6. The most important criterion (25%) is the risk of failure of the approach, but the ease of integration of organizational aspects and the expected brand awareness are considered close followers (20%). Whether or not this alternative reduces the level of decision making and also how long it takes for this approach to be fully implemented are moderately important (15%). The necessary capital is with 5% rather unimportant. (Please refer to Appendix #7 for the full decision matrix.)

Recommendation

After careful evaluation of the presented alternatives, we strongly advise Mindray Medical International Limited to acquire Datascope and integrate it into the company as a subsidiary.

Implementation Plan

The implementation process starts at the beginning of 2008 with the proposal for acquisition to Datascope, including a price offer. The following three quarters are reserved for on-going negotiations with Datascope leading up to the signing and closing of the deal. In the third quarter of 2008, when negotiations are coming to an end and specifics are available, Mindray Medical International Limited and Datascope request the approval by the US government for this process. After evaluating the process, we

are confident that within nine months this process will be completed and Mr. Xu Hang can be appointed as the new CEO of the subsidiary Datascope. This event also presents the first milestone for control and evaluation purposes in the implementation process. Depending on the exact date of this milestone the following implementation process has to be adapted accordingly.

Chinese expatriates should be sent to the US in order to oversee processes and also collect know-how together with their American counterparts. The very successful Chinese hiring process will be adapted to the US in order to hire and train open-minded, young graduates. To overcome cultural differences, the staff will also participate in team-building activities and cultural events. Besides that, the analysis of the production steps of the American products will be initiated.

The merging of product knowledge of both sales forces should also be initiated to improve the distribution channels and marketing operations in the US market will be strengthened to improve brand-awareness. In the following year 2009 the products can be adjusted to market specific needs according to the collected know-how. Along with this the products are continuously enhanced to ensure a strong future position. Prices are also increased to enter a skimming strategy in the US market. This is possible due to the combined knowledge and therefore high-quality products. Further work exchanges between China and the U.S. should be introduced to make ensure the smooth closing of the cultural gap. Depending on the analysis of the production steps from the previous quarter, outsourced production steps are retrieved and integrated into existing Chinese facilities.

After the first half of 2009, the organizational integration of both parties is expected to be successfully completed, presenting the second milestone in the implementation process.

Now the improved market penetration of the US market can be tackled, making use of production synergies and therefore further reducing production costs. After 2009 on-going activities in the external sector are only the continuous enhancement of the products and the conducted marketing operations to increase brand-awareness. In the internal sector team-building activities and further work exchanges will ensure that the cooperation of all employees will run as smoothly as expected. (For a more detailed overview of the implementation timeline with all aspects please refer to Appendix #8.)

Financial Considerations

Increasing revenues of both companies compensate the high expenses of the implementation plan. But still there is a negative amount in the first year which can be financed by a three-year bank loan, which can be repaid over the course of the next three years. (For full information please refer to Appendix #11.)

Contingency Plan

Increasingly strong competition presents a risk with moderate likelihood, but high impact. In this event, the position of Mindray should be strengthened and marketing efforts have to be increased.

In case the cultural differences between the Chinese employees and the American employees are too high, the risk of which is high, then the team building efforts have to be increased.

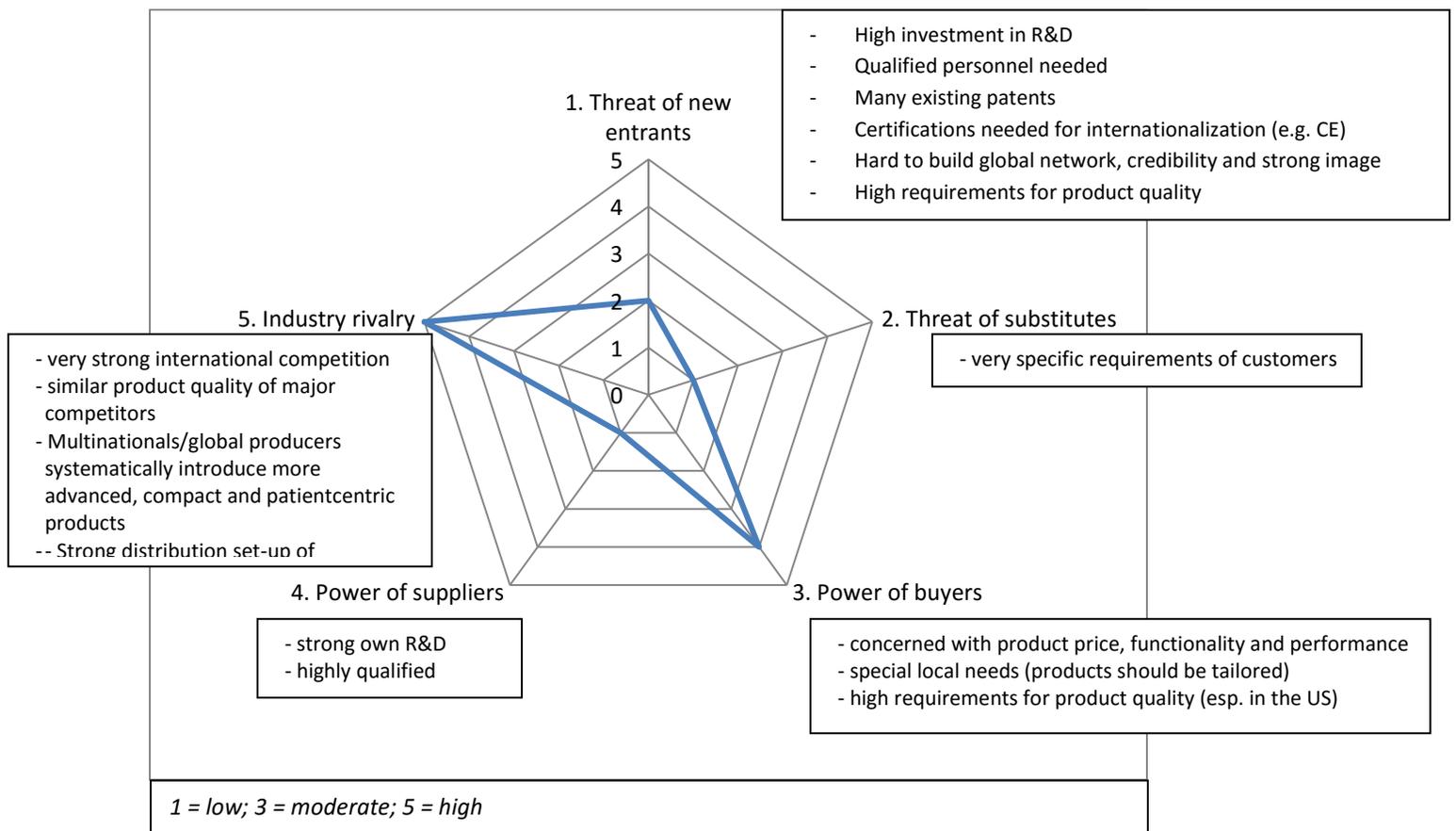
In the unlikely event that Datascope refuses the acquisition further negotiations have to be conducted and even mergers or the joint-venture can be considered. If the US government should, against all odds not approve the request, the negotiation efforts have to be increased and the merger or the joint-venture have to be considered. (For the full contingency plan please refer to Appendix #12.)

Appendices

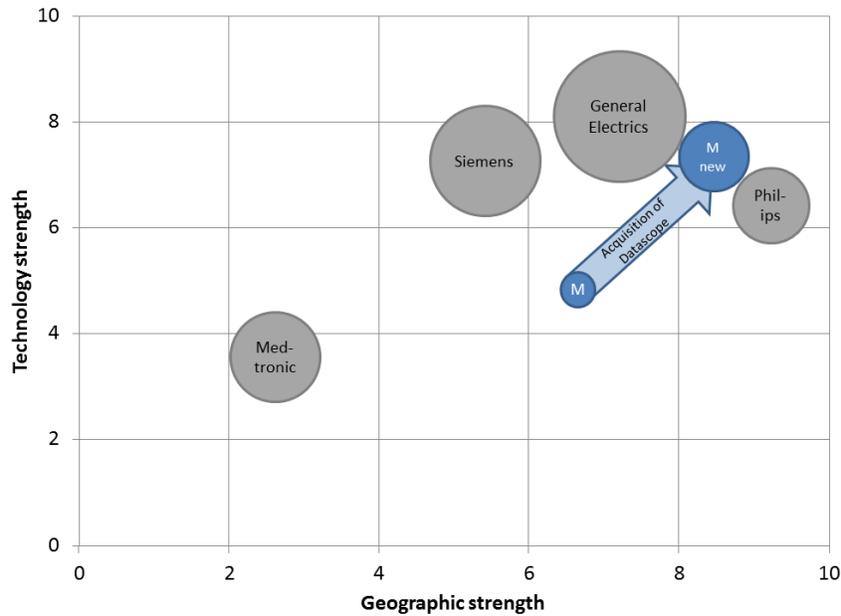
Appendix #1: PEST Analysis

Economic	Africa: less intense competitors US: biggest health care spender (42% of global) US: difficult to find strong distributors expenditures China: increasing amount of cross-border M&A In general high failure rate for M&A China: upgrading of industrial structure
Socio-demographic	China: no skilled personnel for sales & too young China: High quality is wished at affordable prices → High price sensibility US: High quality requirements Population is getting older
Technological	US: patient monitoring devices are modular systems and easy to upgrade US: Products need to be equipped with digital transmission US: Products are operated by professional technicians and not doctors
Legal	Asia & Africa: fewer regulatory agencies & fewer legal permission barriers Local labor laws are challenging US: very high requirements for product quality

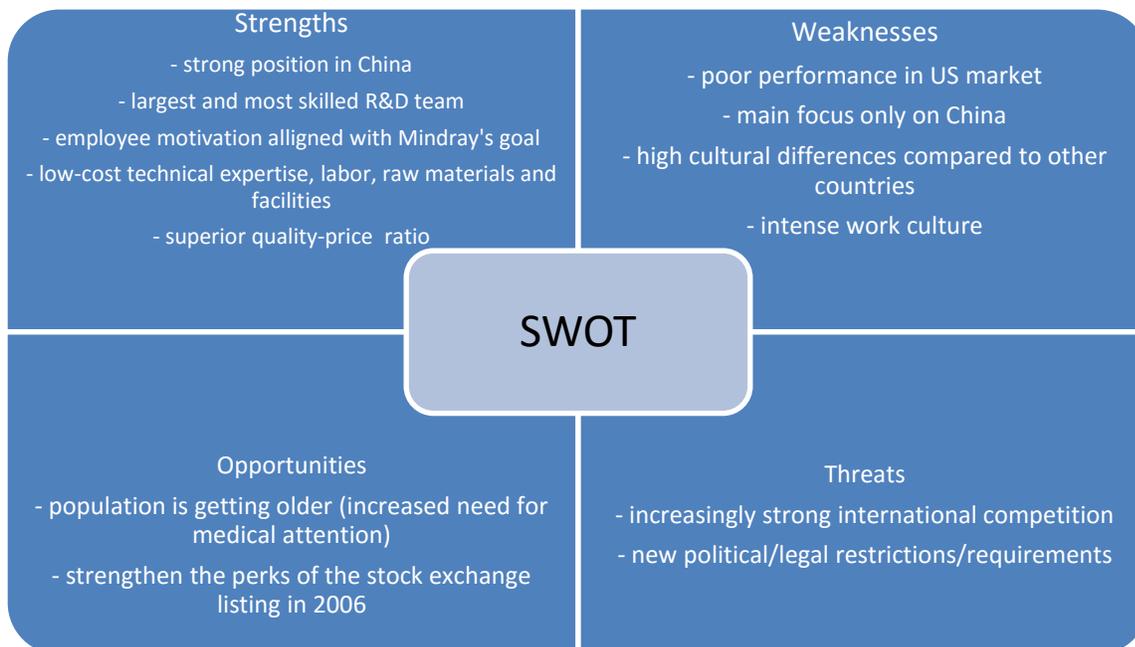
Appendix #2: Porter's 5 Forces



Appendix #3: Position Matrix



Appendix #4: SWOT Analysis



Appendix #5: Strategic Alternatives

Alternatives	Explanation	Pros	Cons
Acquisition of Datascope	Total acquisition of Datascope, which results in operating in the US market with the 100% subsidiary Datascope	<ul style="list-style-type: none"> - benefit from marketing organization and direct sales force in the US - strong position of Datascope in the market - completion of product lines of both firms - ability of building brand awareness in customers' minds quickly - make use of Datascope's knowledge of US-specific requirements - high degree of power in the decision making process 	<ul style="list-style-type: none"> - cultural differences - general outlook for M&A not optimistic (only 23% successful) - management diversity - US regulatory approval required - very high HR costs of Datascope - slowed down development of new products
Go-it-alone approach	Penetration of the US market, building up distribution channels and brand awareness without a partner	<ul style="list-style-type: none"> - independence of Mindray - ability to stick to own work culture 	<ul style="list-style-type: none"> - harder to gain brand awareness in the US market - struggle to build a strong sales team in the market - higher financial risk - difficult governmental negotiation process - no further insight of specific customer needs and framework for relationships - currently low performance in the market
Merge with Datascope	Merge with Datascope, which results in operating under a combined brand name in the US and a shared management	<ul style="list-style-type: none"> - benefit from market-specific knowledge and sales force of Datascope - lower costs than acquisition alternative - higher acceptance of staff - lower risk of financial failure 	<ul style="list-style-type: none"> - even higher impact of cultural and management diversity - general outlook for M&A not optimistic (only 23% successful) - empowerment of Datascope in Mindray's business - similar risks related to acquisition of Datascope
Joint Venture with Datascope	Build a Joint Venture together with Datascope under a new name, solely focusing on the US market	<ul style="list-style-type: none"> - Joint Venture with focus only on US market - no risks for existing firms - combination of both firms' skills and US-specific interests 	<ul style="list-style-type: none"> - no ability to benefit from current reputation and brand awareness of both firms - high organizational effort (e.g. new management staff needed) - very high investment - Datascope might be hard to convince

Appendix #6: Decision Criteria

Criteria	Explanation	Relevance to business	Weight
Costs	What is the price for this alternative, how high is the needed investment?	Low importance due to Mindray's good financial situation	0.05
Time of implementation	How long does it take to implement this alternative and achieve the goals set for the US market?	High importance because Mindray is already delayed in entering the US market	0.15
Expected brand awareness	To what extend is this alternative able to increase brand awareness in customers' minds?	Very high importance as name and reputation influences the buyer's decision and consequently the market share	0.2
Ease of integration	How much effort is needed to integrate and combine the management and cultural differences?	Very high importance as the integration is crucial for the success in the market	0.2
Degree of decision power	By choosing this alternative, how independent would Xu Hang be in his decision making?	High importance since it prevents conflicts and allows faster processes	0.15
Risk of failure	How likely does the alternative tend to fail and how deep is the financial impact?	Highest importance as failure would throw Xu Hang back for years and make his dream of becoming a global player even harder to reach	0.25

Appendix #7: Decision Matrix

Criteria	Weight	Alternative 1: Acquisition of Datascope	Alternative 2: Go-it- alone approach	Alternative 3: Merge with Datascope	Alternative 4: Joint Venture with Datascope
Costs	0.05	4	1	4	2
Time of implementation	0.15	5	1	3	2
Expected brand awareness	0.2	4	2	4	1
Ease of integration	0.2	4	5	3	2
Degree of decision power	0.15	5	5	2	2
Risk of failure	0.25	3	2	4	1
Total score	1	4,00	2,85	3,35	1,55

*Evaluation: 1 (=least attractive); 5 (=most attractive)

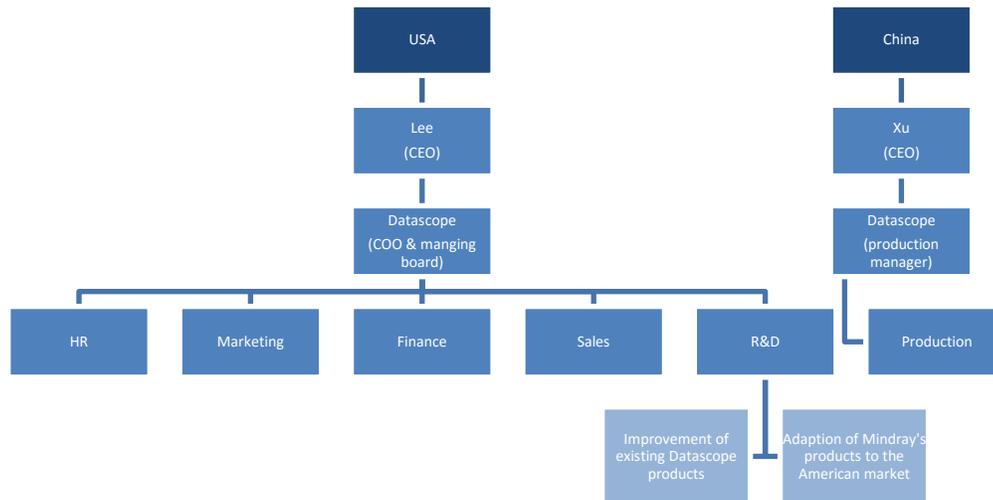
Appendix #8: Implementation Timeline

			2008				2009		2010	2011	2012
			Q1	Q2	Q3	Q4	H1	H2			
External	Product	Adjust products to market-specific needs									
		Continuously enhance product development									
	Price	Increase price (skimming strategy)									
	Distribution	Merge product knowledge of sales force									
	Promotion	Marketing operations in the US market									
Internal	Acquisition	Proposal for acquisition, including price offer									
		Request for approval by US government									
		Negotiations with Datascope leading to signing and closing									
	Staff	Set Mr. Xu Hang as new CEO									
		Send expatriots to US (Management and R&D)*									
		Hire and train open-minded young graduates									
		Team building activities and cultural events									
	Production	Further work exchanges (China & USA)									
Analyse production steps of products											
Retrieve outsourced production processes and integrate in existing facilities in China											
Results	Milestone:	Total acquisition of Datascope									
	Milestone:	Orga. integration									
		Combination of market (Datascope) and product (Mindray) knowledge									
		Benefit from Americans'									
		Make use of production synergies									
		Strengthen brand image and brand awareness									
		Minimization of cultural differences									
		Alignment of firm cultures									
	Improved market penetration										

Appendix #10: Balanced Scorecard

Perspective	Objective	Measure	Initiative
Internal Business	Alignment of management and cultural diversity	Employee satisfaction/ fluctuation	Team building activities and cultural events
Financial	Closing of revenue gap to competitors in US market	Market share	
Customer	Increase of brand awareness and customer satisfaction	Number of re-purchases/ complaints	Adjust products to market-specific needs, merge product knowledge of sales force
Learning & Growth	Establishment of know-how synergies	Production costs	Retrieve outsourced production processes and integrate in existing facilities in China

Appendix #9: Organization Structure of Mindray's U.S. Operations



Appendix #11: Financial Plan

<i>in US\$ Millions</i>	2008	2009	2010	2011	2012
Expected revenue	872	1121	1478	1993	2746
Mindray, estimated annual growth 49% (CAGR)	437	651	970	1445	2153
Datascope (subsidiary), estimated annual growth 8%	435	470	508	548	592
Total expenses (70% of expected revenues)	610	785	1034	1395	1922
Net margin	262	336	443	598	824
Expected costs of acquisition and restructuring					
Price of purchase (market capitalization)	577	-	-	-	-
Negotiation and closing of contract	1	-	-	-	-
Enlargement of R&D department (additional 5% of revenue)	44	56	74	100	137
Travel and training costs of expatriots and work exchanges	5	3	3	3	3
Recruitment and training of graduates	1	1	-	-	-
Marketing expenses (8% of revenue)	70	90	118	159	220
Team building and cultural events	1	2	2	2	2
Integration of production..	1	20	-	-	-
Total additional costs	699	172	197	264	362
Remaining capital	-438	165	246	334	462
Funding	450	-	-	-	-
Interests (3-year loan, 4,5%)	-	6,75	6,75	6,75	-
Repayment (3-year loan)	-	150	150	150	-
Liquidity of previous year	-	12	20	109	286
Liquidity	12	20	109	286	748

Appendix #12: Contingency Plan

Risk	Likelihood	Impact	Contingency
Increasingly strong competition	Moderate	High	Strengthen position Increase marketing efforts
Datascope refuses acquisition	Low	High	Further negotiations Or even consider merger/joint-venture
Cultural differences too high	High	Moderate	Increase team-building efforts
US government doesn't approve request	Low	High	Further negotiations Or even consider merger/joint-venture