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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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

by

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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. AcquireDatascope
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

1. Threat of new entrants
- High investment in R&D
- Qualified personnel needed
- Many existing patents
- Certifications needed for internationalization (e.g. CE)
- Hard to build global network, credibility and strong image
- High requirements for product quality

2. Threat of substitutes
- Very specific requirements of customers

3. Power of buyers
- Concerned with product price, functionality and performance
- Special local needs (products should be tailored)
- High requirements for product quality (esp. in the US)

4. Power of suppliers
- Strong own R&D
- Highly qualified

5. Industry rivalry
- Very strong international competition
- Similar product quality of major competitors
- Multinationals/global producers systematically introduce more advanced, compact and patient-centric products
- Strong distribution set-up of

1 = low; 3 = moderate; 5 = high
Appendix #3: Position Matrix

Appendix #4: SWOT Analysis

**Strengths**
- strong position in China
- largest and most skilled R&D team
- employee motivation aligned with Mindray's goal
- low-cost technical expertise, labor, raw materials and facilities
- superior quality-price ratio

**Weaknesses**
- poor performance in US market
- main focus only on China
- high cultural differences compared to other countries
- intense work culture

**Opportunities**
- population is getting older (increased need for medical attention)
- strengthen the perks of the stock exchange listing in 2006

**Threats**
- increasingly strong international competition
- new political/legal restrictions/requirements
Appendix #5: Strategic Alternatives

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Explanation</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of Datascope</td>
<td>Total acquisition of Datascope, which results in operating in the US market with the 100% subsidiary Datascope</td>
<td>- 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</td>
<td>- cultural differences - general outlook for M&amp;A not optimistic (only 23% successful) - management diversity - US regulatory approval required - very high HR costs of Datascope - slowed down development of new products</td>
</tr>
<tr>
<td>Go-it-alone approach</td>
<td>Penetration of the US market, building up distribution channels and brand awareness without a partner</td>
<td>- independence of Mindray - ability to stick to own work culture</td>
<td>- 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</td>
</tr>
<tr>
<td>Merge with Datascope</td>
<td>Merge with Datascope, which results in operating under a combined brand name in the US and a shared management</td>
<td>- benefit from market-specific knowledge and sales force of Datascope - lower costs than acquisition alternative - higher acceptance of staff - lower risk of financial failure</td>
<td>- even higher impact of cultural and management diversity - general outlook for M&amp;A not optimistic (only 23% successful) - empowerment of Datascope in Mindray’s business - similar risks related to acquisition of Datascope</td>
</tr>
<tr>
<td>Joint Venture with Datascope</td>
<td>Build a Joint Venture together with Datascope under a new name, solely focusing on the US market</td>
<td>- Joint Venture with focus only on US market - no risks for existing firms - combination of both firms’ skills and US-specific interests</td>
<td>- 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</td>
</tr>
</tbody>
</table>

Appendix #6: Decision Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Explanation</th>
<th>Relevance to business</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs</td>
<td>What is the price for this alternative, how high is the needed investment?</td>
<td>Low importance due to Mindray’s good financial situation</td>
<td>0.05</td>
</tr>
<tr>
<td>Time of implementation</td>
<td>How long does it take to implement this alternative and achieve the goals set for the US market?</td>
<td>High importance because Mindray is already delayed in entering the US market</td>
<td>0.15</td>
</tr>
<tr>
<td>Expected brand awareness</td>
<td>To what extend is this alternative able to increase brand awareness in customers’ minds?</td>
<td>Very high importance as name and reputation influences the buyer’s decision and consequently the market share</td>
<td>0.2</td>
</tr>
<tr>
<td>Ease of integration</td>
<td>How much effort is needed to integrate and combine the management and cultural differences?</td>
<td>Very high importance as the integration is crucial for the success in the market</td>
<td>0.2</td>
</tr>
<tr>
<td>Degree of decision power</td>
<td>By choosing this alternative, how independent would Xu Hang be in his decision making?</td>
<td>High importance since it prevents conflicts and allows faster processes</td>
<td>0.15</td>
</tr>
<tr>
<td>Risk of failure</td>
<td>How likely does the alternative tend to fail and how deep is the financial impact?</td>
<td>Highest importance as failure would throw Xu Hang back for years and make his dream of becoming a global player even harder to reach</td>
<td>0.25</td>
</tr>
</tbody>
</table>
Appendix #7: Decision Matrix

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weight</th>
<th>Alternative 1: Acquisition of Datascope</th>
<th>Alternative 2: Go-it-alone approach</th>
<th>Alternative 3: Merge with Datascope</th>
<th>Alternative 4: Joint Venture with Datascope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs</td>
<td>0.05</td>
<td>4</td>
<td>1</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Time of implementation</td>
<td>0.15</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Expected brand awareness</td>
<td>0.2</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Ease of integration</td>
<td>0.2</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Degree of decision power</td>
<td>0.15</td>
<td>5</td>
<td>5</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Risk of failure</td>
<td>0.25</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Total score</td>
<td>1</td>
<td>4.00</td>
<td>2.85</td>
<td>3.35</td>
<td>1.55</td>
</tr>
</tbody>
</table>

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

Appendix #8: Implementation Timeline

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Objective</th>
<th>Measure</th>
<th>Initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal</td>
<td>Alignment of management and cultural diversity</td>
<td>Employee satisfaction/ fluctuation</td>
<td>Team building activities and cultural events</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Closing of revenue gap to competitors in US market</td>
<td>Market share</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer</td>
<td>Increase of brand awareness and customer satisfaction</td>
<td>Number of re-purchases/ complaints</td>
<td>Adjust products to market-specific needs, merge product knowledge of sales force</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Learning &amp; Growth</td>
<td>Establishment of know-how synergies</td>
<td>Production costs</td>
<td>Retrieve outsourced production processes and integrate in existing facilities in China</td>
</tr>
</tbody>
</table>
Appendix #9: Organization Structure of Mindray’s U.S. Operations

USA
- Lee (CEO)
- Datascope (CDO & managing board)

HR
Marketing
Finance
Sales
R&D

Appendix #11: Financial Plan

<table>
<thead>
<tr>
<th>Expected revenue</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mindray, estimated annual growth 49% (CAGR)</td>
<td>437</td>
<td>651</td>
<td>970</td>
<td>1445</td>
<td>2153</td>
</tr>
<tr>
<td>Datascope (subsidiary), estimated annual growth 8%</td>
<td>435</td>
<td>470</td>
<td>508</td>
<td>548</td>
<td>592</td>
</tr>
<tr>
<td>Total expenses (70% of expected revenues)</td>
<td>610</td>
<td>785</td>
<td>1034</td>
<td>1395</td>
<td>1922</td>
</tr>
<tr>
<td>Net margin</td>
<td>262</td>
<td>336</td>
<td>443</td>
<td>598</td>
<td>824</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expected costs of acquisition and restructuring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price of purchase (market capitalization)</td>
</tr>
<tr>
<td>Negotiation and closing of contract</td>
</tr>
<tr>
<td>Enlargement of R&amp;D department (additional 5% of revenue)</td>
</tr>
<tr>
<td>Travel and training costs of expatriots and work exchanges</td>
</tr>
<tr>
<td>Recruitment and training of graduates</td>
</tr>
<tr>
<td>Marketing expenses (8% of revenue)</td>
</tr>
<tr>
<td>Team building and cultural events</td>
</tr>
<tr>
<td>Integration of production</td>
</tr>
<tr>
<td>Total additional costs</td>
</tr>
</tbody>
</table>

Remaining capital  | 448  |
| Funding  | 450  |
| Interests (3-year loan, 4.5%)  | 6.75 |
| Repayment (3-year loan)  | 150  |
| Liquidity of previous year  | 12   |

Liquidity  | 12   |

Appendix #12: Contingency Plan

<table>
<thead>
<tr>
<th>Risk</th>
<th>Likelihood</th>
<th>Impact</th>
<th>Contingency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasingly strong competition</td>
<td>Moderate</td>
<td>High</td>
<td>Strengthen position increase marketing efforts</td>
</tr>
<tr>
<td>Datascope refuses acquisition</td>
<td>Low</td>
<td>High</td>
<td>Further negotiations or even consider merger/joint-venture</td>
</tr>
<tr>
<td>Cultural differences too high</td>
<td>High</td>
<td>Moderate</td>
<td>Increase team-building efforts</td>
</tr>
<tr>
<td>US government doesn’t approve request</td>
<td>Low</td>
<td>High</td>
<td>Further negotiations or even consider merger/joint-venture</td>
</tr>
</tbody>
</table>

USA
Lee (CEO)
Datascope (production manager)

China
Xu (CEO)
Datascope (production manager)

Improvement of existing Datascope products
Adaptation of Mindray’s products to the American market