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WORLDWIDE CASE COMPETITION

Sample Case Analysis #4

Qualification Round submission from the
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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
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St. Mary's University

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Executive Summary

Mindray Medical International Limited is a global medical device company that has identified a need and opportunity to expand internationally. In recognizing this need, the company is faced with the decision of acquiring a U.S.-based medical device company, Datascope, or attempting to penetrate the U.S. market on its own. Datascope poses an opportunity for Mindray to expand its global distribution channel, which Mindray has identified as a necessary component for growth. Datascope has mastered the ability to connect with customers through a worldwide marketing organization that focuses effort on including direct sales forces in the U.S. and Europe. Based on SWOT, Porter's Five Forces, risk and financial analyses, the recommendation is to acquire 100% ownership of Datascope's Patient Monitoring business at \$524.73 million based on the fiscal year 2006 enterprise value (Appendix 1). Steps will need to be taken to successfully execute the acquisition, including building brand awareness, integrating human resources, and improving its distribution channels. Even though the NPV calculation in Appendix 4 shows that acquiring Datascope is the superior choice, this doesn't take into account that an acquisition is riskier than going at it alone. Our sensitivity analysis (Appendix 7) takes this into account, and shows that even with risk factored in, the expected value of acquiring Datascope is still higher than the expected value of not acquiring it.

Current Situation

Although they currently hold 12 international offices and have the largest medical device R&D team in China, Mindray is limited in their distribution channels and lacks presence in the world's largest medical devices market. Mindray has opted to develop, manufacture, and distribute its own products in a global market and has been able to deliver valuable products while maintaining cost leadership.

Mindray's strong recruitment and training practices would allow for a smooth integration of Datascope

into its operations. Through this expansion, Mindray has the opportunity to build relations with American universities and research facilities to enhance their reputation and credibility within the American and global market (Appendix 2).

However, the American market poses considerable threats to Mindray's market penetration and success. The 61% failure rate of global M&As poses significant threat to the successful acquisition of Datascope. Furthermore, the differing regulatory and cultural environments that exist between China and the U.S. will pose a threat to Mindray's success as well (Appendix 3).

Competitive Analysis

In acquiring Datascope and penetrating the U.S. market, Mindray faces multiple competitive challenges. The U.S. market poses barriers for foreign firms to enter such as its high HR cost and well established distribution models. Furthermore, U.S. consumers are price and quality sensitive due to the vast array of substitutes that exist. While the new market poses threats from U.S. buyers, Mindray can continue to source its supplies abroad and therefore will not be subjected to the ability of suppliers to impact production. Their most direct competition stems from other global firms such as Philips, GE, Siemens, and others (Exhibit 9 from Case).

Brand Awareness

Much as General Electric funds Stanford University in exchange for R&D results, Mindray could fund a university and reap the same benefits while also establishing brand awareness and developing their talent pipeline. If Mindray completes a successful acquisition of Datascope, the firm would have the available resources and established U.S. connections to partner with a mid- to high-tier university or

hospital. If Mindray is unable to acquire Datascope, the firm will have to both establish a network and expend more resources in order to partner with a university or hospital. Either way, this investment will be structured as an up-front grant, followed by increasing R&D benefits from the University. If Mindray invests in a mid-tier university, the up-front cost will be greater, but the R&D benefits will increase faster over time (Appendix 4). Also, on top of their involvement with universities and hospitals, Mindray would benefit from implementing a marketing plan to promote brand awareness in the U.S. The cost of the marketing campaign would be incurred regardless of an acquisition of Datascope or not, therefore it is not included in Appendix 4.

Integrating Human Resources

Although Mindray is a prominent producer of medical devices in China, they are lacking the global sales force to achieve sustained success in both U.S. and other international markets. Datascope offers a well-educated, talented workforce that is well-connected to the U.S. and European markets. If Mindray chooses to acquire Datascope, they will directly benefit from the experienced, knowledgeable direct sales team that Datascope currently possesses. This core competency, combined with Mindray's R&D capabilities, offers many synergies for these two firms to combine.

Aligning Distribution of Resources

Currently, Mindray's international distribution channel goes through large distributors for their low-end products, while distributing their high-end products directly to the end consumer. In the U.S., the standard distribution strategy goes right from the manufacturer to the end consumer (see Appendix 5 for graphical representations of these market distribution strategies). To increase their U.S. sales, Mindray needs to transition to a larger, more experienced sales force. This distribution strategy is

especially important in the United States (compared to other international markets) because the end user in the U.S. is a professional technician, as opposed to a doctor. Establishing a personal connection is more important and also enables the technician to provide constant feedback at the point of delivery and throughout the product life. Datascope's direct sales force can provide these benefits, while also increasing sales in the market that accounts for 42% of global medical device expenditures.

Implementation Plan

Based on the above analysis and our calculations in Appendix 7, Mindray would benefit from acquiring 100% ownership of Datascope. It is also recommended that Mindray give a \$75 million grant to a mid-tier U.S. university (Appendix 6). This will enable the firm to increase their brand awareness, further develop their talent pipeline, and gain access to R&D results that the university discovers. This action, combined with a marketing campaign, will allow Mindray to successfully integrate with Datascope and succeed in the U.S. market.

Mindray needs to leverage their current product portfolio, along with Datascope's U.S. market experience, to meet the demands of U.S. consumers. By partnering with Datascope, Mindray would reduce their product development costs from \$20 million to \$5 million while also ramping up U.S. sales at a faster pace, due to the shorter product development time. Once Mindray's products are adapted to the U.S. market, they can ramp up production.

In the case that the acquisition is unsuccessful, a viable option for Mindray to potentially recover losses would be to back out of the U.S. market and focus resources on other international endeavors. The

ability for Mindray to salvage positive brand awareness in the U.S. would be substantially limited after a failure in that market.

The low interest rate environment presented by the financial crisis beginning late in 2007 would allow for Mindray to finance an acquisition at low costs. However, upfront costs would need to be made in addition to the cost of the buyout. In order to allow for a fluid transition, Mindray would need to invest in training employees to be well-versed in the product lines and operations of each respective company.

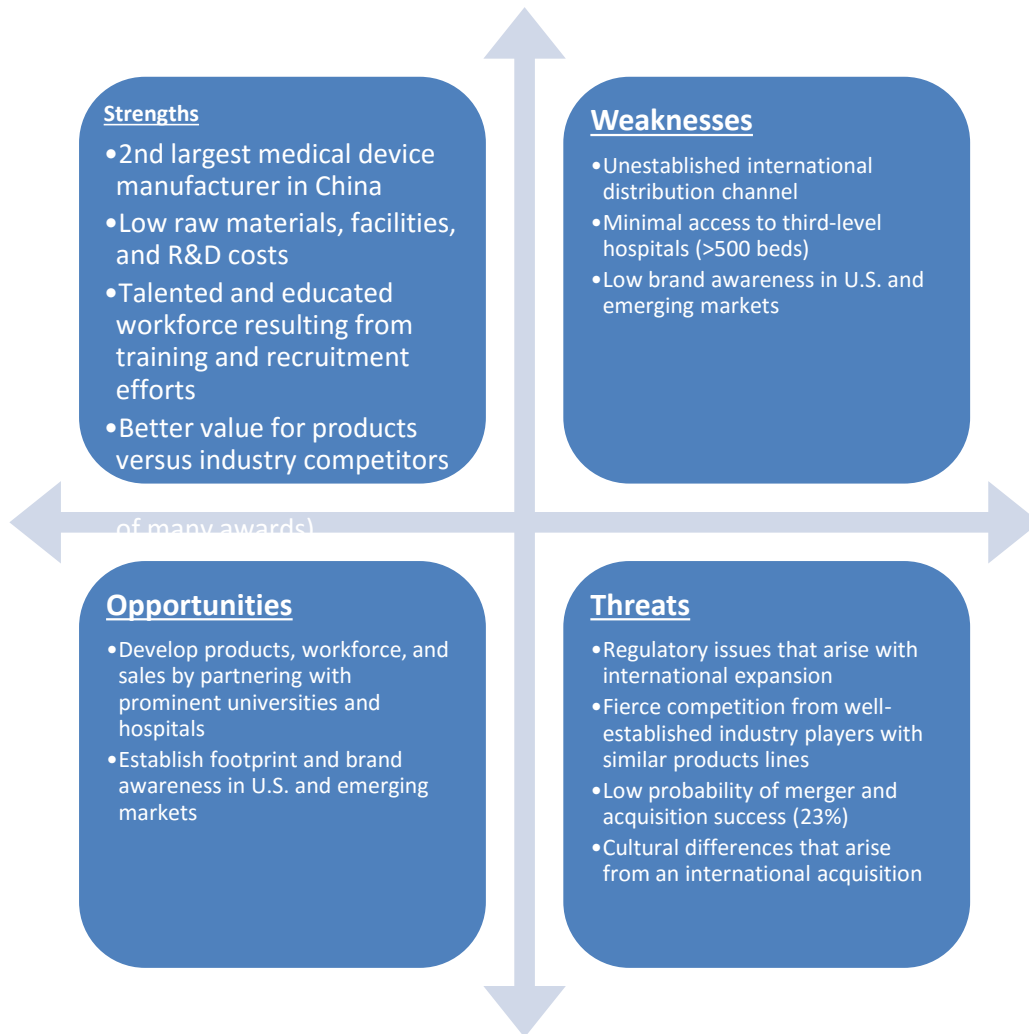
Appendices

Appendix 1: Pros and Cons of Alternatives

Alternative	Advantages	Disadvantages
Total Acquisition	<ul style="list-style-type: none"> • Acquiring the first manufacturer of monitoring devices with 50% market share • By default would extend globally • Restructure spending and management to their preferences • Would potentially accomplish becoming a global player 	<ul style="list-style-type: none"> • Human resource costs are high • High initial cost • 23% of success
Partial Acquisition	<ul style="list-style-type: none"> • Lower initial cost • No need for entire restructure of the firm with merger • Would potentially accomplish becoming a global player 	<ul style="list-style-type: none"> • High coordination cost* • Potential of tension from past relationship • 23% of success
No Acquisition (Go it Alone)	<ul style="list-style-type: none"> • Less merger risk • Save costs on HR and training • No additional financial burden from Datascope • Would potentially accomplish becoming a global player 	<ul style="list-style-type: none"> • Extended introduction period and brand awareness • Lack of university and research facility relationships
No Acquisition (Focus on non-US sales)	<ul style="list-style-type: none"> • Reduced risk of failure in U.S. market • Lower initial costs and potential lower ultimate costs 	<ul style="list-style-type: none"> • Missed opportunity of 42% of the global market • No focus on becoming a global player

*Additional cost associated with lost time and production due to extended period of time coordinating between two different firms

Appendix 2: SWOT Analysis of Mindray



Appendix 3: Risk Analysis of the Recommendation

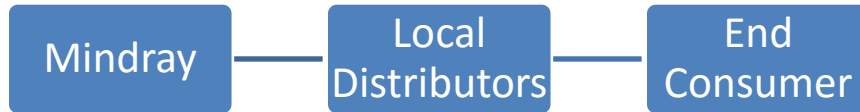
Risks Analysis if Takeover Occurs		
Risk	Likelihood	Outcome
Regulatory issues inhibit the production capabilities of Mindray	Moderate	Management taps into their vast pool of talent and experience to navigate regulatory issues
Cultural differences between Mindray and Datascope leads to a tense, unproductive work environment	Low	Management and HR work to mend differences and educate staff on cultural differences
Attempted acquisition of Datascope is not successful (61% of worldwide M&A's fail)	High	Datascope and Mindray remain two separate, independently operating entities; contingency plan is used
Initial resistance based on past work relationship	Low	Management works to communicate the value of teamwork and urges employees to learn from the past
Customer uncertainty regarding quality of products	Low	Marketing campaigns and reputation of Mindray will mitigate customer uncertainty about their products

Appendix 4: NPV of the Acquisition

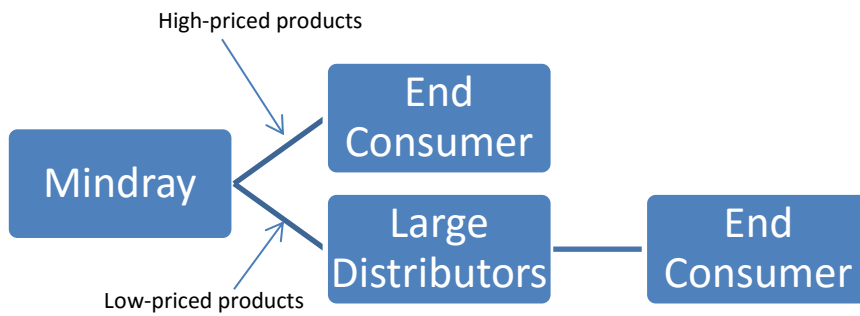
Acquire	2006	2007	2008	2009	2010	2011	NPV
Acquisition of Datascope	\$ (524.73)						
Educate Datascope Salesforce on Mindray Products	\$ (10.00)						
Develop U.S. Targeted Products	\$ (5.00)						
Partner with Mid-Tier U.S. University (1)	\$ (75.00)	\$ 1.00	\$ 4.00	\$ 9.00	\$ 16.00	\$ 25.00	
Datascope Projected Revenue (6.2% Growth) without Cost Savings	\$ 373.00	\$ 396.13	\$ 420.69	\$ 446.77	\$ 474.47	\$ 503.88	
Datascope Cost Savings (2)	\$ 41.59	\$ 44.17	\$ 46.91	\$ 49.82	\$ 52.91	\$ 52.91	
Datascope Profit	\$ 208.95	\$ 180.32	\$ 191.50	\$ 203.37	\$ 215.98	\$ 229.37	
Mindray Added Revenue (mainly U.S.) (3)		\$ 10.00	\$ 20.00	\$ 40.00	\$ 80.00	\$ 160.00	
Mindray Added Profit (29% profit margin)		\$ 2.90	\$ 5.80	\$ 11.60	\$ 23.20	\$ 46.40	
Overall Cash Flows	\$ (405.78)	\$ 184.22	\$ 201.30	\$ 223.97	\$ 255.18	\$ 300.77	\$597.99
Not Acquire (Go it Alone)							
	2006	2007	2008	2009	2010	2011	NPV
Develop U.S. Targeted Products	\$ (10.00)	\$ (10.00)					
Build U.S. Distribution Channels	\$ (30.00)	\$ (30.00)					
Partner with Low-Tier U.S. University (1)	\$ (60.00)	\$ 1.00	\$ 2.00	\$ 4.00	\$ 8.00	\$ 16.00	
Mindray Added Revenue (mainly U.S.) (3)			\$ 10.00	\$ 20.00	\$ 40.00	\$ 80.00	
Mindray Added Profit (29% profit margin)			\$ 2.90	\$ 5.80	\$ 11.60	\$ 23.20	
Overall Cash Flows	\$ (100.00)	\$ (39.00)	\$ 4.90	\$ 9.80	\$ 19.60	\$ 39.20	(\$72.39)
*in millions USD							
**bold categories are included in Cash flows							
(1) initial cost of grant and future R&D benefits							
(2) Cost Savings are due to more efficient R&D with Mindray assuming Datascope's current R+D % of Revenue is 20% (because they are outsourcing it) 20% -> 9.5% (Mindray's current R+D % of Revenue = cost savings of 10.5% of revenue							
(3) because of added distribution - sales start ramping up once distribution channels are in place							

Appendix 5: Graphical Representation of Distribution Channels

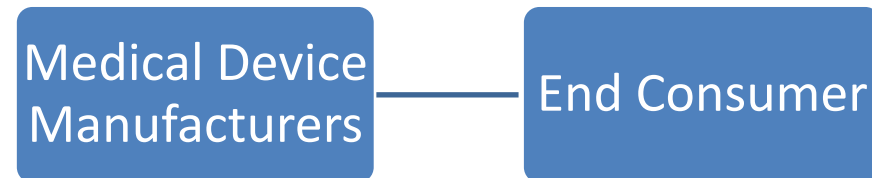
Mindray's Distribution Channel in China



Mindray's Distribution Channel in International Markets



Typical Distribution Channel in United States



Appendix 6: Gantt Chart

Acquire Datascope

Action Item	Year				
	2007	2008	2009	2010	2011
Acquire Datascope					
Educate sales force on products and sales strategies					
Integrate Datascope synergies with Mindray					
Implement marketing campaign					
Develop U.S. targeted products					
Establish partnerships with hospitals and universities					
Ramp up U.S. sales efforts					

Do Not Acquire Datascope

Action Item	Year				
	2007	2008	2009	2010	2011
Build new distribution network					
Implement marketing campaign					
Develop U.S. targeted products					
Establish partnerships with hospitals and universities					

Appendix 7: Sensitivity Analysis

Strategy:	Result	Probability	Result (millions)	EV	Overall EV of Strategy
Acquire Datascope	Acquisition is successful	0.325	\$ 597.99	\$ 194.35	
Acquire Datascope	Acquisition is unsuccessful	0.675	\$ (262.37)	\$ (177.10)	
					\$ 17.25
Don't Acquire	Gains traction in U.S.	0.7	\$ (72.39)	\$ (50.67)	
Don't Acquire	Doesn't gain traction in U.S.	0.3	\$ (122.39)	\$ (36.72)	
					\$ (87.39)
	(1) 50% more likely than average global success rate (because they previously partnered)				
	(2) Have to sell at 50% of original value				
	(3) NPV minus \$50M in opportunity costs				