



Price Competitor to Value Competitor



By Amitava Chattopadhyay , INSEAD Professor of Marketing

Emerging market companies have to graduate from competing with multinationals on price to building their own global brands.

China has quickly become famous for its ability to churn out high quality electronics and precision medical devices as its industries move up the value chain. But while the country has proved itself as a producer, few of its companies are emerging as global leaders. Until now, those that have gone global have competed on price, not on brand and they have to build their value proposition to establish themselves as global companies.

Now listed on the New York Stock Exchange and an acquirer of a U.S. company, medical equipment maker Mindray is good example of an emerging market company that has cut its developing country umbilical cord and is slowly learning to walk among the global players. Its journey also tells a tale of how far it has come, but how far it still has to go.

Founded in 1991 by two colleagues working at Anke, a medical equipment maker, Lee Xiting and Xu Hang started Mindray to capitalise on the increasingly vibrant medical devices industry in China. Devices were in high demand and large foreign conglomerates were well placed to meet it. Xu and Lee became distributors of patient monitoring products produced by the likes of GE, Hitachi, HP and Siemens.

After achieving a turnover of US\$1.6 million in the first year, the two realised that there were even bigger opportunities to secure and wanted to produce their own products. At the time, there were few domestic medical devices manufacturers. The market was already dominated by the foreign giants but to compete, Mindray had to build products on a foundation of proprietary intellectual property.

“Mid-cut” R&D strategy

So the founders identified their niche: mid-market. They knew that developing the technology from scratch would take many years, even for a mid-market approach, which would mean three-to-four years of core technology development. This caused challenges for the capital constrained start-up and started to divide the company. Some felt it shouldn't have entered R&D and should have instead maintained its focus on the high-margin distribution of foreign brands in China.

But the company started to build its momentum, receiving a US\$2 million investment from Walden International Investment which saw its potential. It was then able to buy out its sceptical shareholders and carry out its plan. It launched its first patient monitoring device in 1998, followed by a haematology analyser.

On the back of this success, it ramped up its R&D investment. By 2007, Mindray had the largest R&D team of any medical device maker in China with centres in Shenzhen, Beijing, Shanghai, Nanjing, Xi'an and Chengdu. It had also managed to build strong research capabilities cheaper than its competitors. According to Xu, after three years at Mindray, the capability of the Chinese R&D staff was 80 percent that of their European or American peers, but cost less than one fifth.

It started to become evident that these China-based, low-cost technical capabilities would prove a competitive advantage in international growth.

With strong proprietary technology and growing R&D, Mindray stuck even closer to its winning formula: pricing itself below the mid-range of international brands.

Going local

While developing its product portfolio, Mindray built up a direct sales channel to sell to customers, but here's where it again diverged from its foreign competitors. Using local distributors, rather than the national ones that had all been snapped up by the foreign MNCs, Mindray was able to get closer to its customers and their needs. It was also able to appoint distributors based on specific product lines and avoid distributors focusing only on the most profitable lines. Mindray also had lower staff costs than its foreign rivals and was therefore able to provide attractive margins to its distributors.

By the mid-2000s, the company had 800 dealers on its books.

Not only did Mindray think local, it acted local. While its foreign competitors were focused on the top-tier cities, Mindray was quietly but quickly gaining traction in second and third-tier cities and hospitals across China. Its target audience was primarily concerned with product cost, functionality and performance stability. This was its niche.

Going global

By the late 2000s, Mindray was rapidly growing across Asia, Africa and Latin America, but performance in the biggest market for healthcare spending, the United States, was lackluster. The company had listed on the New York Stock Exchange by 2006 so had a footing among investors and had gained credibility there. But it was a different market. Patient monitoring was handled by technicians rather than directly by the doctors as in China, quality expectations were very high and U.S. hospitals required components that were not just reliable and functional but also compatible with each other, while also being able to digitally transmit data.

Like other emerging firms at this stage of their growth, Mindray realised it was up against an invisible wall and took the plunge in acquiring the capabilities to take itself to the next level of its ambition. It successfully acquired and integrated Datascope's patient monitoring business, a U.S.-based medical device maker similar to Mindray. But Datascope was different to Mindray in a few respects: It was struggling with managing costs, it

farmed out some of its operations (even to Mindray between 2004 and 2006) and had difficulties with speed to market.

But while Mindray was able to bring a frugal and innovative emerging market mindset to Datascope, the U.S. company was able to give Mindray a true foothold in the biggest healthcare market. It also gave it the patient monitoring know-how in the U.S. market and its sales infrastructure.

Mindray's original focus was on having a superior "quality/cost ratio", but the next big step is to make the transition from quality maker of existing things at a lower price to being a world leader in its products. As Tata Motors got a new lease of life from its acquisition of Jaguar Land Rover, emerging market multinationals have to make the transition to compete on quality, instead of improving existing technology at a lower price. The acquisition of Datascope is the perfect opportunity for it to shed its image as a Chinese company and position itself as a global one.

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