Interview: Xu Hang – CEO, Mindray, China

04.04.2012

Tags: China, Medtech, Mindray

In the last decade the medical device sector has undergone a lot of change; China has become a net importer to a net exporter of these devices. What is your outlook as to how this happened so quickly and what the key factors that revolutionized the industry?

During the first 10 years from Mindray's inception there was very little movement in the industry. Yet in recent years there has been a lot of changes as the healthcare sector started to get attention for reform. The current government reform is providing a lot of opportunities for companies in medical devices, pharmaceuticals and healthcare services. We have enjoyed very rapid growth in the first 10 years or so and now our golden time has really come.

Mindray was created in 1991 when there was almost no medical industry in China and all devices were imported. During the first two years we were primarily acting as a local distributor of foreign devices. After two years we started our own R&D, introducing our first product in 1993 followed by new ones every year afterwards. So we have witnessed how the sector evolved here in China. Currently, Mindray is the number one Chinese medical device company in terms of revenue, network, and R&D resources.

There has been a lot of changes and success over the last 18 years. How do you look back on these experiences and how have these challenges changed you as a manager?

There have been three phases to the development of Mindray, the first as I have mentioned were as a distributor of imported goods. The second phase focused on establishing a sales network and product line in China. At the time we were the first company in the sector to have our own R&D and sales people while ensuring we met the global quality standard. In the third phase we have transformed into a global company, marked by our listing on the NYSE. Mindray is among the first Chinese companies to send people overseas to begin international expansion. However, China remains a very important market for our future and over the last ten years we have enjoyed high domestic growth even during the international recessionary period. There are more hospitals being established throughout the country while existing healthcare facilities are being upgraded everyday. For example, in the city of Shenzhen there are at least five new hospitals under construction at the moment which is in addition to the rural community network which is greatly supported by the central government.

You mentioned that Mindray moved from being an importer of foreign devices to establishing your own product pipeline and now globalizing the company. About 10% of your annual revenues are reinvested into R&D which is a novel idea for a Chinese company, especially in the 1990s. What was the initial impetus to become an innovator in medical devices rather than a company that followed the trend?

This policy comes from the very first phase of Mindray when we were trying to be excel as a distributor of foreign brands but during the time, we encountered several problems. Although some companies' products were good in their market such as the US or Europe, the repair rate went up when the products were used in China. At first we were confused about this but after examining the issue we found that many of the users in China are not familiar with the English language so they were not using the machines properly. Additionally, in many areas of China the power supply was not stable and many hospitals were not air conditioned at the time. Thus the operating conditions in China varied greatly from the original markets from which the devices came from.

We also found that some of the features were not applicable or well designed for Chinese operators. The spare parts policies added to another layer of complication as it did not fit the domestic market which would put us in a very awkward situation because we would promise our customers things that we ended up not being able to deliver on. This resulted in us losing several key customers in our first year. I still remember in one case where we were representing a world famous brand but the spare parts we ordered from them took two months to arrive in China so the customer got very angry. After many of these problems we realized we need to know the system better so that we could provide proper service to our customers. Later, we found that if we manufacture in China we would be able to meet the requirements of our customers much better.

Mindray is fortunate that the background of those that started it was in engineering so we liked to manufacture products to fit needs. As such we are one of the few companies that put a lot of resources into R&D even up to this day. We have seen the results of high input to R&D and it is clear that it is only through this investment that you can meet your customer's requirements with high quality, innovative products. R&D also allows us to create a lower cost product which in our philosophy does not mean lower quality. This is important because quality is at the center of our business. For instance, our first chemistry analyzer took five years to develop even though in the third year all but two features met our specifications. Although we had invested a lot into the development of this product and needed it to enter the market we still let the R&D team work on it for two more years in order to ensure it was good enough. This paid off in the end because when it did go to market it immediately took a significant market share in the segment. In general, our products have been successful because of this approach such as our patient monitoring system which has a 50% domestic market share nowadays.

Mindray has a distinct advantage with low cost researchers here in China. Of course, this cannot go on forever so what is the plan to further increase the success of Mindray in the long-term?

It is clear that the R&D talent is demanding higher and higher compensation in China so in the long run their income will be near par with developed countries. However, in the next five to ten year period we will still enjoy a relatively cost effective and growing population of college graduates with nearly 6 million people graduating every year. Although I wouldn't say the education system is very successful the shear number of them leads me to think that among them, we can find enough talented people. Mindray also has its own training platform and our approach is unique to recruiting and training people to be good scientists or engineers. Our system makes full use of them while letting them realize their full potential within the company. We provide a high target as well as a good environment and make sure they are well compensated. So in the near term, we can still enjoy low-cost R&D in China but in the long-term we aim to globalize our R&D platform which means we have to put our R&D platform on a worldwide scale. The first step has been establishing R&D in the US through M&A and retaining international talent.

You're already a market leader in China for much of the medical device industry but since beginning your exports at the beginning of the decade you have managed today to gain more of your revenues from the international rather than the domestic market. Do you see the international market being the biggest focus in the future? Do you feel you have maximized the potential of the Chinese market?

The Chinese market is still a very important market and it is the single biggest contributor to our revenue flow. In the long run the domestic market will remain very important because the healthcare sector is one of the few big markets where the requirements of customers are not fully met. Despite the fact that there are already a lot of hospitals there are still many to be built so the market potential is still huge especially in the rural areas. The expenditure on healthcare of per capita income is still low relative to more developed regions and the country still has a lot to develop overall.

The existing international market is a different story as it is very big but with a low growth rate that may be 20 times as big the Chinese market. Still, we do see a lot of opportunities available and we separate the market between the developed and emerging regions because their requirements are quite different. In the emerging markets there are similarities with the rural regions of China and the clinical style healthcare which is very price sensitive. They need new products but price is the determining factor in many occasions. Mindray will provide special products to this market as we do in parts of China. In the developed market such as the US and Europe, the first consideration is quality and service while price is not among the first things considered. However, if you can provide a good product with a price advantage then you are well positioned to be the final winner. Healthcare expenditure is too big in the US, a main reason being the companies that provide devices for the sector have no reason or incentive to reduce cost. Mindray is well positioned at the moment to provide innovative products at a low cost which will only help in the future. Our recent history in China has showed we can capture the higher end of the market with our products, so our success in developed markets depends on establishing a proper sales channel and familiarizing customers with our name.

As you mentioned earlier, as a distributor of foreign goods in the 1990s there were a number of issues related to service and quality in a distant market. Do you run into any of these same problems while exporting to developed markets?

Due to our past experiences, when we enter a new market or look for a dealer for export we focus on the ability to provide service to the end-user. Our goal is to provide more spare parts at reasonable prices for these distributor-service groups. In the US and Europe we are attempting to setup our own service team for the market.

What is your opinion on the importance of the medical device sector for the Chinese governments plans to move from a manufacturing to an innovation driven economy? What are you doing within the sector to push this goal along?

The Chinese government has been paying more attention to innovative players in the pharmaceutical and medical device sectors as they have realized this industry is integral to a harmonious society. In the future, we are confident we will gain more resources and support from the government.

What are the main challenges facing China in this quest to move towards an innovative era?

Currently, there are few companies like Mindray in China which is why we have the support of both the local and central government. People want to understand how Mindray can provide products that meet international standards. China cannot rely on low-cost manufacturing alone forever; it needs higher inputs for innovative R&D and intellectual capital. Some of the policies are now focusing specifically on supporting these activities.

In order to have innovative company such as Mindray, it requires the very top talent. We have noticed throughout the healthcare industry that there is a 'talent war' in effect as many companies battle to get the best people on their side. What are you doing as a company to ensure you bring in the top engineers and researcher to develop the most innovative products in the industry?

Every year there are a huge number of college graduates but only a few of them meet Mindray's standards. As such we do a lot of recruitment activities before graduates make their decisions. Most of our R&D team is comprised of students with master's degrees while some of them even hold PhD's in order to ensure a higher standard of talent. Secondly, we provide salaries and compensation such as stock option plan that is superior to our competitors in the industry. Thirdly, we remind them that Mindray has a very good platform for internal growth which provides them a career path.

The alumni from the best institutions are a very good example of how Mindray provides for its talent so we send them back to the universities in order to recruit students who are about to graduate.

What is your vision for the next five years to keep Mindray in the leading position and cutting edge of the industry in China as well as expanding your international exposure?

The first focus will still be on R&D which is why we recruit new talents every year into the company regardless of economic cycles. Secondly, we need to globalize our R&D resources and recruit talents from other countries to work with us. Lastly, we should improve our management system in order to bring in more experienced managers and leaders in order to enhance the globalization process. Mindray needs to become a truly global company rather than just an exporter of products. This requires people on the ground who can tell you what customers are like in a country and the special requirements in each region so that we can better serve the market.

We want our people to live happier lives and realize their potential through providing better products and service to our customers. Through this we can realize everyone’s dream. From past experience we believe that China needs companies like Mindray and without whom the government’s healthcare reform would not be successful. We also hope that Mindray will be present in many other countries to play a central role in providing more value to people in need.

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