



**Medtronic COO Collins**

*"You cannot manage business in mainland China by telephone from Hong Kong."*

# Mending Hearts

**By Gene Walden**

*Pacemaker giant Medtronic's 20-year experiment in China is finally showing a pulse. The key? Perseverence.*

**W**hen Medtronic first mapped out a strategy to sell its medical wares in the People's Republic of China, Mao Zedong was in full control, and the Vietnam War was raging just to the south. Although China represented a quarter of the world's population, Medtronic executives knew their short-term prospects were anything but promising. Only a scant handful of privileged Chinese could have afforded a Medtronic pacemaker—even if there had been doctors or facilities equipped to handle the operation.

Two decades later, Medtronic is still waiting for its China gamble to pay off.

The Minneapolis-based operation has made some significant inroads into the world's largest market, including establishing sales and technical support centers in many major cities throughout China. But, though sales are rising, profits have proved elusive. Nevertheless, Medtronic isn't ready to abandon its China operation.

Says Arthur Collins Jr., Medtronic's COO, "Our approach to emerging markets such as China is that we're willing to continue to invest if we have a good understanding of how that business will be economically viable long-term. With a population of 1.2 billion, there is certainly going to be an opportunity in China for those who can figure out the right strategy."

With operations in 80 countries, Medtronic is the leader in the worldwide heart pacemaker market. (The company posted revenues of \$1.33 billion in fiscal 1993 (ended April 30) and net earnings of \$197 million.) In addition to pacemakers, the company also manufactures related devices such as cardiopulmonary equipment, heart valves, angioplasty catheters, and implantable drug delivery devices.

Slightly more than 10% of Medtronic's sales come from the Pacific region, with the greatest share coming from its Japanese operation, which recently exceeded \$100 million in annual sales.

Medtronic's numbers in China are a far cry from those in Japan, but Collins finally sees plenty of reason for optimism. "There aren't many economies around the world with double-digit growth." (The fastest-growing areas of China have annual GNP growth in the 10% to 15% range; by comparison, the US is typically in the 2% to 5% range.)

A change in the business climate has also provided reason for hope, adds

Collins. "We've seen an opening up of China's market in the past few years. What had been a very restrictive set of requirements for doing business has loosened up considerably. Not only does the economy show great resilience and tremendous growth potential, but the ability to operate in China is continuing to evolve, offering a wider variety of approaches and greater flexibility than in the past."

Medtronic has utilized several key strategies to establish a customer base in China:

#### **INDEPENDENT DISTRIBUTORS.**

The company uses several independent distributors within China to sell to doctors and hospitals. (The distributors also handle product sales for other medical companies.)

#### **TECHNICAL SPECIALISTS.**

Medtronic contracts with doctors who work full-time for the company providing advice, training and technical support for those who use Medtronic products.

#### **SPECIAL TRAINING CONFERENCES.**

The company sponsors education and training programs (often at hospitals and medical centers) for doctors throughout China. Medtronic also participates in trade shows inside China.

#### **OUTSIDE TRAINING.**

Medtronic will sometimes pay to send doctors to trade shows and educational symposiums outside China, where they can get advanced training on

Medtronic's products.

A crucial hurdle in Medtronic's efforts to crack the Chinese market has been the cost of its pacemakers and related products. The price of the devices—and the operations required to implant them—is well beyond the budget of most Chinese consumers. Medtronic is eyeing several options for bringing its product prices to an affordable level.

"You have a mammoth population, but only a very small percentage have the ability to pay for more advanced technology," explains Collins. "How do you expand that percentage? Part of the process is physician education. Also, as China's economy grows, people's ability to pay increases. And as more companies move into China, the demand for improved healthcare will increase—and so should the demand for technology. And, finally, we're learning to tailor products to the market. If a population's ability to pay differs from that in other areas of the world, we will undoubtedly need to drive our product design and manufacturing economies to meet the economic realities of the market."

Medtronic is also exploring cheaper modes of distribution and service in China to nudge costs down still further.

"We may decide to deal with fewer distribution points, and we may use different alternative for after-sales service and support. Our whole sales-marketing-distribution network may be very different in the future." Despite the many obstacles the company has faced during the past two decades, Medtronic has continued to knife its way into the mainland market with relentless persistence. It continues to set up new offices, expand its distribution operation, and educate doctors.

Although its Greater China headquarters is in Hong Kong, Medtronic's sales network is well entrenched throughout the mainland. "To be effective, you need to have a presence in the place where you are doing business," says Collins. "You cannot be effective and manage business in mainland China by telephone from Hong

## **BLUEPRINT**

### **Medtronic's Path to Foreign Markets**

- ▶ **Identify the leading doctors in each new country through international medical conferences and related meetings.**
- ▶ **Introduce the company to doctors through educational programs, not through advertising and selling.**
- ▶ **Create a direct-sales and distribution organization in your chosen country instead of relying on independent distributors to market products.**

*(From Marketing Masters: Secrets of America's Best Companies by Gene Walden and Edmund O. Lawler, HarperBusiness, 1993.)*

Kong—particularly because so much of our business is with the local physicians and the local hospitals. We really need to be on site.”

Even now, with its growing success in China, Medtronic continues to tinker with its marketing formula. “One thing is certain: The formulas for success in China in the past will undoubtedly be different in the future,” says Collins. “Our aim is to go into China with an open mind and consider all approaches, as opposed to just locking in on what we’ve done elsewhere. Classical marketing and sales techniques that have been well proven in Western developed countries may not be the most appropriate way to approach the emerging China market.”

Medtronic continues to search for answers to several compelling questions, says Collins. “To what degree will decisions be centralized or decentralized under the Chinese government? To what degree will the government supply healthcare service, or will it rely on private institutions? How can a company like Medtronic develop a partnership with doctors? Our intent with our China strategy is not to look at the short term, but to look at how we can position ourselves to be effective over the long term.”

The company recently appointed a task force made up of Medtronic executives and a Chinese national who has experience dealing with the medical establishment in China. “That team is just now beginning a major review of what our China strategy should be in the years to come,” says Collins. “We’re not going to exclude anything. We’ll consider all options.”

When the economic fruits finally ripen in world’s largest market, Medtronic will have a strategy and a marketing network in place to make the most of it. “The important point,” says Collins, “is that when you look at China—its population, its resources, its capabilities—you realize it will continue to emerge not only as a major market, but as an increasingly important economic power in the world. We want to be there to grow with China.”