

GE HEALTHCARE LIFE SUPPORT SOLUTIONS (A): ENTERING A NEW GLOBAL MARKET

Research Associate Lily Zhang prepared this case under the supervision of Professors Dan Denison and Katherine Xin as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

In October 2007, when Matti E. Lehtonen joined GE Healthcare as general manager of the Life Support Solutions iPerformance business in China, he faced a complex set of challenges.

GE Healthcare had entered the value segment anesthesia business in June 2006 through the acquisition of Zymed, a family-run company based in Wuxi, about 100 kilometers from Shanghai, which manufactured and sold anesthesia machines and respirators. After the deal it was renamed Clinical Systems Wuxi (CSW). Zymed had been the market leader in the Chinese low-end domestic anesthesia machine market with an estimated market share of 20% to 25% in terms of number of units sold. But its technology was by and large adapted from Datex-Ohmeda (DO), the leading global brand in anesthesia equipment, which had been acquired by GE Healthcare in 2002.

The former general manager of CSW, who had carried out the Zymed acquisition, had resigned in May 2007 for personal reasons. He had devoted most of his time and effort to sales and marketing, so there was no clear strategic plan for building the global value anesthesia business, nor much progress on the integration of CSW. To make matters worse, market share had shrunk to around 5%, partly because it was taking CSW time to make quality improvements to the products and partly because of changes in the China distribution channel to ensure compliance with regulations and GE's internal guidelines.

Then, in the second half of 2007, just after Lehtonen was appointed, GE Healthcare decided to integrate production of anesthesia machines from the higher-end DO with those from CSW to form LSS iPerformance. It hoped to achieve internal efficiency and build a single engineering function.

Where should Lehtonen begin in order to integrate the company and get it on the right track?

The Anesthesia Market in China

Anesthesia machines are essential pieces of medical equipment and play two important roles in the operating room: They provide both anesthesia and oxygen to patients during surgery. Given China's massive population, the market potential of this kind of medical equipment was huge. This was especially true because of China's rural health reform, which would bring 80% of the rural population, nearly 700 million people, into the national health insurance system. The low-end segment of China's anesthesia machine market, in which CSW competed, was growing at an average rate of 8% to 10% per year,¹ according to Jeff Hsu, sales and marketing director of GE's China LSS iPerformance.

The major players in China's anesthesia market included local companies like Aeonmed and Mindray, as well as companies like Draeger, the leading German producer of medical equipment which also competed with GE Healthcare in global markets. Aeonmed was the market leader in the local market and had formed strategic alliances with Philips Healthcare and Maxon Medical, a subsidiary of Maxon Motor, the Swiss supplier of high-precision drive systems. Mindray was a latecomer in the market, but grew very fast. It launched its initial public offering (IPO) on the New York Stock Exchange in October 2006. According to its prospectus, its revenue in the first six months of 2006 grew 54.9% compared with the same period in 2005.

Zymed: The Precursor of CSW

Originally known as Wuxi Zhongyuan Medical Instrument Institute, Zymed was founded by the grandfather of the Chong family in 1988. Ten years later, his four grandchildren took over the business. They renamed it Zymed and, as a sales-oriented organization, developed it into the market leader. Each of the grandchildren was an excellent salesperson. They divided the China market into four regions, and each took responsibility for one. In 2004 and 2005, they sold around 900 machines each year and the number reached 1,200 units in 2006, the year Zymed was acquired by GE Healthcare. Guo Song, operations manager of LSS iPerformance and a former partner of Dawn, one of Zymed's subsidiaries, commented:

The organization structure of Zymed was simple. It had dreams, but no long-term strategy. It had a culture of thrift. It also had good execution, which was based on a transparent rewards system. In its ten-year history, employees benefited a lot financially.

But just like many Chinese family-run companies, Zymed did not pay much attention to internal management. It had no vision, mission or control systems. For companies like Zymed, this might not matter so much in a fast-growing market in which demand always exceeded supply.

¹ The size of this segment in China reached about US\$61 million in 2008.

GE Healthcare China

GE Healthcare was one of the major businesses in the GE family. It entered the China market in 1991 by setting up GE Hangwei Medical Systems, a joint venture with China National Medical Equipment & Supplies Import & Export Corp., a subordinate to China's Ministry of Health. In 1996 GE Healthcare established two more joint ventures, one was GE Medical Systems with a state-owned company in Wuxi, which later became GE Healthcare's R&D and production base in China; and the other was GE Hualun Medical Systems Co. Ltd with National Medical Equipment Industry Corp.

GE Healthcare China later made these two wholly owned companies. GE Hangwei Medical Systems remained a joint venture, in which GE Healthcare owned more than a 90% stake. GE was the market leader in China's medical equipment industry.

In 2002 GE Healthcare acquired the Finnish medical equipment provider – Instrumentarium. Instrumentarium owned a well-known brand in anesthesia machines and respirators – Datex-Ohmeda (DO) – which targeted the medium and high-end markets. Production of DO machines in China was first located in Wuxi at GE Medical Systems' site. The prices of DO machines were several times higher than those of CSW machines.

In 2004 GE Healthcare invested \$26 million in building a R&D park in Beijing. GE Healthcare China generated total revenue of \$700 million in 2005, representing about 4% of GE Healthcare's global revenue.²

Clinical Systems Wuxi: CSW

The first general manager of CSW, P.S. Sim, a Singaporean Malaysian, was the person who led the Zymed acquisition. A 15-year GE veteran, Sim was part of GE Healthcare China's first sales team and founded GE Healthcare's LSS Wuxi.

Zymed had about 80 employees when it was acquired. Only 30 stayed after the acquisition, including Guo Song, the former partner of Dawn; Gu Jianzhong, who was responsible for engineering at Zymed; and Chong Wei, one of the four founders. The acquisition negotiations lasted for more than a year, during which time Sim had much communication with the three men and a mutual trust developed.

When GE Healthcare decided to buy Zymed, it underestimated the quality issues. Sales plummeted after the acquisition as CSW had to stop shipping machines when customers complained and had to focus on solving the quality problems. Sandy Wu, quality manager, recalled, "Sim was busily engaged in marketing and sales. He had no time for quality, operations, costs or other issues."

In the second quarter of 2007, CSW started to export to India.

² 21st Century Business Herald, October 19, 2006.

Matti E. Lehtonen

When Lehtonen, originally from Finnish Lapland, joined GE Healthcare he had been living and working in China for well over 20 years, 8 of them in Hong Kong. He first came to the country in 1982 and studied Chinese at Beijing University on a Finnish Government scholarship from 1986 to 1989. He held a masters' degree in computer science and manufacturing management from Helsinki University of Technology.

During his career, Lehtonen had worked in several industries – renewable energy, medical equipment, sporting goods, electronics manufacturing service and consulting – in various different roles, including after-sales, sales and marketing, quality management, and general management. In the 1990s, he had worked for Instrumentarium for five years.

Building the Management Team

When Lehtonen assumed his role at LSS iPerformance, he started by building his management team, hiring several veterans from other parts of GE. Maggie Zhang, operations director, had been with GE Healthcare for over 10 years, and Zhang Yukun, global sourcing manager, had joined GE 7 years before. He also found a new finance manager from within GE Healthcare China and an HR manager with long GE experience.

Lehtonen and his team outlined the major challenges they faced:

- What approach should they adopt in pushing the integration given the complication of combining DO with CSW while integrating CSW? Should they start with an organizational structure change?
- How should they solve the legacy quality problems given that they had dragged CSW's market share down to such a degree?
- How could they rebuild CSW's market share in China? How could they optimize the dealer channel for coverage? How could they support export markets for growth?

Exhibit 1 GE Healthcare China

