Market share and acquisitions

Business, Marketing

The future prosperity of Medtronic heavily depends on diversifying its products so it can apply its technology to other diseased parts of the human anatomy. This diversification will result in an increase in market share, and potentially overall industry dominance. Currently, the company controls about 29% of the market share, calculated by the ratio of company sales ($5, 697 million) to industry total sales (19, 643 million). They are behind such companies as Johnson & Johnson who have the greatest resources to support research and development, and possess the ability to maintain the large sales force needed to promote their products.

If a higher market share was desired, Medtronic would need to concentrate on building a diverse range of products, which they are trying to achieve partially through mergers and acquisitions. One such acquisition that had a large impact on Medtronic's expenditures was acquired Spinal Dynamics Corporation (SDC), a developer of artificial cervical discs designed to reduce recovery time for cervical spinal cord surgery, in June 20021. The transaction is valued at approximately $269. 50. In addition, they acquired MiniMed and Medical Research Group, Inc.

in 2002 for a total purchase price of $3, 807 million. MiniMed is a world leader in the design, development, and marketing of medical systems for the treatment of diabetes. As a result of these acquisitions the company earnings were pushed down for the third quarter of 2002 due to a non-recurring hit of $249. 9 million. The end result was a $66. 7 million earnings loss, and a substantial decrease in the growth of dividends per share1.

Following the acquisition with MiniMed, Medtronic reported a 21. 2% growth in diabetes sales for the immediate calendar year after2. The acquisitions, though costing more than expected, proved to be a valuable investment, and a strong strategic move by management. Life Cycle Analysis Although Medtronic is not a newly developed firm, it remains in between the growth and the expansion stage of a firm's life cycle. The fast paced industry, which relies on constant innovation, has lead Medtronic down a road of rapid growth, fueled by research and development, as well as mergers and acquisitions.

Based on the past ten years data it appears that Medtronic invests a certain percentage of their estimated net sales for the next year in research and development. This focus on research and development tends to form a cyclical pattern in their growth in sales and earnings. For several years Medtronic's growth in sales increases at an increasing rate, which is then followed by several years of growth at a decreasing rate, after which the pattern repeats itself (see historical data chart). This wavering between stages is also illustrated by their ten-year average dividend payout ratio of 17. 15 percent.

The normal payout ratio in the growth stage is at a low level of 5 to 15 percent, where as the expansion stage is usually characterized by a dividend payout ratio of 25 to 30 percent3. When taking into consideration the industry this appears to be normal. High-tech firms compete aggressively and often the only way to stay afloat is through innovation, making the industry itself a dynamic environment. This prevents any company from entering into the maturity stage of the life cycle, and is the reasoning behind Medtronic's wavering growth patterns.