A&M HEALTHCARE & LIFE SCIENCES

INDIRECT GROWTH

FIVE AREAS OF FOCUS FOR EFFECTIVE DEALER AND DISTRIBUTION FRAMEWORKS IN MEDICAL DEVICES

"Revenue solves all problems" is a common adage for all industry leaders. Sales growth drives investment, shareholder returns, employee morale and various other aspects of a great company. Sales decline does the exact opposite.

That said, selling is tough, and building direct sales channels in competitive industries such as medical devices means significant forward-looking investment. Even with great products, it is difficult to effectively grow and maintain an in-house sales organisation when that product or the company as a whole is not at scale.

To address this, medical device industry leaders have invested time and resources into building indirect sales partnerships. Indirect channels are responsible for around 60% of European medical product revenues. Third-party distributors deliver over 15 billion packets of medicines worth €100bn a year.

When investment resources are finite, third-party distributors are a logical move. With extensive industry contacts, well-trained salespeople and most importantly, wide market coverage allows for immediate scaling. Medical device leaders can deploy a ready-made sales force without having to sink substantial costs into training and development.

Creating an effective indirect distribution network is easier said than done, and at Alvarez & Marsal we have seen companies struggle to effectively execute a go-to-market strategy for a new or current distributor network on multiple occasions. Companies have faced issues related to partner assessment, contracting, capacity planning, order fulfilment and much more. Additionally, at a higher level, there can often be difficulty for leadership teams in defining a clear strategy that equips their distribution network to thrive over the long term.

Here are five key areas to focus on if your company is creating or scaling an indirect sales channel:

1 Create a partnership vs. service mentality:

Distributor partners are a part of the broader organisation. They do not simply provide a service, but are ambassadors for the company, brands and products. Fully integrating third-party teams into the broader sales umbrella prevents departures from the core value proposition. Engage distributors with regular commercial operating reviews, strategy development and other key touchpoints: this aids overall alignment and increases the likelihood that your partners will faithfully serve the needs of your company and its products.

2 A purpose-built feedback channel:

Any effective partnership has at its heart an emphasis on candid feedback. Building a comprehensive go-to-market strategy for indirect distribution is complex, but complications can be ameliorated if distribution partners can easily provide feedback through a clearly defined process. Distributors are your 'feet on the street' and what they have to say is critical to your success.

3 Strong commercial operations infrastructure:

With a third-party distribution network, there is less direct commercial investment. But that does not mean eliminating your sales infrastructure altogether. Strong commercial support is critical to a strong distribution network. Disciplines like marketing, communications, sales training and commercial finance are in many ways more important when they support an indirect sales structure. Centralised teams focused on controls, process, metrics, and communications are paramount to the success of a distributor-driven sales strategy.

4 Focus on 'sell-out':

Contractually agreed performance metrics with distribution partners are critical to setting expectations. That said, both parties should prioritise 'sell-out' (the distributor's sales to end-customers) above 'sell-in' (the inventory the distributor acquires from your company). By using 'sell-out' as the metric of success, companies can avoid the common problem of overstocking distributors. Companies can also obtain earlier indications of what is or is not working, enabling rapid course-correction if a go-to-market strategy proves suboptimal. Establishing trust in sharing 'sell-out' data as the core commercial metric should be achieved as early as possible in the partnership process.

5 Aligned incentives:

Distributors will always pay keen attention to their own margins, as this is the incentive to sell your products. Margins can be very tight: distributors in the US and Europe often have margins in the low single digits, with slightly higher levels for full service distributors. If distributors' incentives are not aligned with your product portfolio and commercial strategy, problems can arise. Often, non-core or 'commodity' products are sold to distributors at a lower price with volume rebate incentives, while newer 'focus' products are transferred at a higher price to hold up company margins. If distributors struggle with focus product sales adoption, they often seize the opportunity to extract short-term margin gains by ramping up sales of the commodity products. Companies should create a shared reward for focus product sales, including incentive structures that adjust over a period of years so that medical device specialists' business strategies and unit economics are aligned with their distributors'.

Growth is difficult and bringing another partner into the mix does not always make it easier. Indirect selling requires a partnership with your product at the centre of the value proposition. Effectively executing this approach may at first require more time and a larger initial investment, but with the correct approach up front, a distribution partner can be a major driver of long-term success.

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A&M's Healthcare and Life Sciences and Corporate Performance Improvement practices have decades of experience helping to create value for healthcare businesses. Our distributor management framework can help healthcare companies create new partnerships and scale up indirect sales functions. Reach out to our key contacts to gain further insight about building and managing indirect sales growth.

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