

## ZS Co-Founder Prabha Sinha: Selling to a Diffuse Market like China

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ZS has been organizing biannual events with senior pharmaceutical industry executives in China to provide an opportunity for industry leaders to network, discuss issues facing the industry and share ideas. On March 2, attendees of ZS' third roundtable event had the opportunity of hearing from Prabha Sinha, a co-founder of ZS Associates, a global sales and marketing consulting firm. In his lecture, Sinha shared his perspectives on leveraging sales forces in a fast-growing market such as China.

In this article, we focus on three ideas that Sinha presented to senior executives:

- A selling model for a diffuse market;
- Two frameworks for growing business; and
- Enhancing hiring and retention through analytics.

Each section below summarizes Sinha's comments on each of these three topics.

### A Selling Model for a Diffuse Market

Most multi-national corporations in pharmaceuticals have been quite successful in the high-end market since they entered the Chinese market. However, China's current health care reform plans seem to favor the development of small hospitals in both large and small cities. As a result, many MNCs are contemplating "moving down" the market ladder to lower-tier markets such as community health care centers and hospitals in small cities. Using the case of a company called Greenlight Planet (GLP), Sinha illustrated a selling model that may help companies reach diffuse markets.

GLP is in a "social entrepreneurial" business, an enterprise that aims to improve living conditions of people who are among the poorest in the world. GLP manufactures solar-charged lights in mainland China (Shenzhen) and ships the final products to remote villages in India and Africa. After initial trials, GLP successfully adopted the selling model of the U.S.-based cosmetics manufacturer and distributor Mary Kay.

In one of its pilot regions, which covers about 4% of India, GLP employs one zone manager, three regional managers, and 30 traveling team leaders. Under the 30 team leaders, GLP has 200 "saathis" ("friends" in Hindi) based in villages who are not GLP employees. Through the saathis, GLP reaches approximately 3,000 rural customers per month.

It is a major challenge to recruit the saathis needed to provide reasonable market coverage and stability. It is not economically feasible to fill these positions with professional salespeople. GLP did so by hiring people with profiles that are much different from professional salespeople. Some of the profiles include:

- Those with a full-time job but want to work 10-20 hours per week to supplement income
- Part-timers such as housewives who want fulfillment, recognition and appreciation
- Short-term "sprinters" who have specific financial needs
- Those who believe in the company's mission to create a green planet

The lower-tier markets that MNCs in China are trying to reach have similarities to the remote villages in India and Africa in which GLP does business. The GLP case illustrates a successful selling model to reach the lower-tier markets.

### Two Frameworks for Finding Ways to Help Growing Business

After describing GLP's experience, Sinha introduced the following framework:



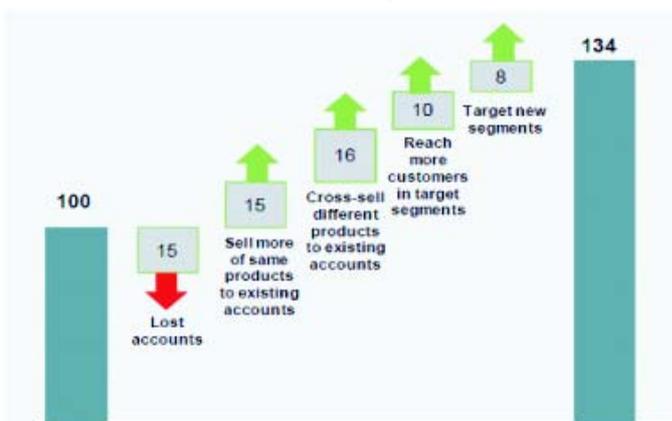
The framework, as an event attendee observed, "makes it easy to diagnose problems and identify solutions." It again reminds us that a company's strategy, structure, people and execution have a strong influence on business results. If business results are not meeting expectations, one or more of these drivers could need fine-tuning or restructuring altogether.

By examining these four dimensions in turn and in tandem, we can find solutions that best address companies' weak spots.

Sinha also examined a framework that distills revenue growth into different streams. In the example shown in the graph below, if a company has a revenue growth target of 34% in the next fiscal year (while overcoming a 15% drop in revenue from lost accounts), it has several sales options it can consider doing so:

- Sell more of the same products to existing customers;
- Cross-sell different products to existing customers;
- Reach more customers in current target segments; and
- Target new customer segments.

Since the resources, capabilities and skills required to contribute to incremental revenue in these "revenue streams" are different, the company needs to find the right changes in each revenue stream to realize the 34% revenue growth.



### Enhancing Hiring and Retention through Analytics

In the last few years, most MNCs have been expanding rapidly in China. Coupled with a high turnover rate in sales forces, recruiting and retention have become serious issues for companies doing business in China.

Sinha offered some ideas to improve hiring and retaining effectiveness. He warned about direct applications of "best practices" from other markets and industries, since companies and industries have differences in culture, strengths and challenges. A more effective starting point is for companies to discover the best practices within their own organization.

Forward-thinking pharmaceutical, insurance and fast-food companies have already taken these initiatives. These companies

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The NDRC had considered industry recommendations on quality factor in the last round comment-seeking for "independent pricing" rules in 2010, when the industry urged the NDRC to continue the existing policy under which off-patent originator/innovative category drugs are eligible for the independent pricing scheme automatically or upon the quality-based qualification assessment. Most recently, the industry proposal to continue "independent pricing" of off-patent originator drugs was resubmitted and is expected to be reconsidered seriously by the new leadership of NDRC's pricing division.

#### **More details on the new NDRC proposal on reference pricing**

It is clear that the State Council is the ultimate decision maker and the force behind the new agenda.

Key objective behind this proposal is to curb fast spending on high priced innovative drugs in recent years. The current BMI reimbursement approach, which calls for uniform reimbursement rates, provides strong incentives for doctors and patients to choose expensive innovative drugs over low priced generic drugs. It is believed that the single reimbursement price model can correct incentive misalignments in drug prescription practices. On top of this, moving towards market-based pricing, other than government controlling retail prices is more in line with international practices. Such a reform would free the NDRC from widespread criticisms over its inability to control price gaps between off-patent originator and generic drugs. Lastly, drugs newly-listed in the 2009 NDRL are limited in number (260 drugs including 113 TCMs) and therefore has relatively little impacts. As these drugs have not yet been formally priced, thus patients pricing and benefit sensitivity are still low.

As to independent pricing, NDRC has offered the following three potential options under the new proposal for the pharma industry to choose from. Nevertheless, the reference pricing scheme will be made applicable to independently-priced drugs regardless of the option taken.

- To allow manufacturers of drugs with independent pricing status freely set their prices without NDRC regulation;
- To continue the existing approach under which NDRC sets dual prices (uniform and independent prices); and
- To continue the existing dual pricing approach, but to delegate independent price setting power to provincial level authorities.

#### **Emerging signs and industry perspectives**

After several proactive advocacy and messages delivered by leading local pharma industry associations, Chinese leaders are now fully aware of the intricate implications and negative impacts of the reference pricing proposal, in spite of their strong rationales to push it forward.

It is becoming increasingly clear now that the NDRC is likely to encounter even greater pricing challenges in the near future. If major supporting policies are not fully integrated and a substantial portion of generic drugs fail to meet standards, the current policy direction can hurt both patients and the pharmaceutical industry (regardless innovative or generic drug companies), and will eventually discourage effective IPR protection and drug innovation in the country.

It should be noted that in other markets with similar socioeconomic indicators to China, as their governments request manufacturers to make price concessions, they typically offer at the same time a much broader and potentially longer runway for market entry of new innovative products and drug products are

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compare sales reps who have exhibited superior performance or have had longer tenure to reps who were rated average in these two dimensions. Through statistical comparison analysis of profile data, companies identified differences between ideal and average sales reps, in terms of education, extra-curricular activities, OPQ (Occupational Personality Questionnaire) score, prior experiences and other criteria. Such initiatives helped companies generate powerful insights on effective hiring practices. Not only do these companies hire high-performing sales reps, those they hired tend to stay longer than their peers.

#### **Other Thoughts**

Sinha also shared numerous other ideas at the roundtable, including the following:

A company's products are critical for a company's business success, but sales and marketing is even more important. Business success relates to sales and marketing power and product through a formula like this (highly simplified) formula:

$$\text{Success} = (1 + a * P) * SM$$

where "a" is a constant, "P" is product quality and "SM" is sales & marketing power.

When a business is in a growth stage, the company should emphasize scale (the size of the sales force) and structure (the sales force's specialization). Roles of a company's selling partners need to be figured out and stabilized. Resource allocation is of less importance than scale and structure at this stage.

There are different sales force sizing philosophies, including margin-driven, pay-as-you-go and share-driven; each is appropriate for the company's current status. In a fast-growing market, most companies opt for a share-driven approach to expand market coverage-grabbing market share is a priority.

Turnover analysis has to incorporate performance information. For example, if 20% of a company's rep departures leave because of pay, it does not automatically imply that pay is a real issue for the greater sales force. It may indicate the opposite if 75% of the departures are low performers.

First-line sales managers are essential in a fast-growing market. Not only are they critical in hiring and developing the sales force, first-line sales managers are also the key in retention (because, as the saying goes, "People join a company. They leave the managers"). Companies should spend effort identify first-line sales managers early, develop them and retain them.

Companies should make recruiting a habit. If you shop when you're hungry, you'll wind up buying junk food.

In a fast-growing market, companies need to watch for complacency. High growth may mask lost opportunity and weaknesses of certain teams. Good times don't last forever: "Last year the fish were jumping in our boat; next year, we may have to go fishing."

#### **About the Authors**

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