THREE WAYS FOR MEDTECH to Make the Most of the Channel

In today's tough selling environment, medtech firms must learn to lean on their partners further down the value chain. Here's what that means in practice.

As in other industries, the balance of supply and demand in medical devices often is compromised by the economics of production, the motivations of sales teams, the variability of getting goods to market, and the opacity of information about which goods are needed or wanted, and when. Hospitals often find themselves with too much inventory of this and too little of that.

Executives at medtech companies are in a position to change this—and to improve their businesses as a result—by tapping into their relationships with channel partners, including distributors, resellers, logistics providers and others along the supply chain.

The value of a value-chain approach

Gone are the days when clinicians regularly made significant purchasing decisions themselves. Increasingly, the cost-conscious hospital administrator or the purchasing professional is the one who's selecting suppliers and signing the contracts. Adding to the pressure on medtech companies, thanks to consolidation among healthcare providers, decisions are being made by ever larger organizations with ever greater buying clout.

More and more industry players now realize that they need to differentiate themselves by looking beyond innovative product features and pricing to services that they can offer or added-value products that they can develop. The leaders are thinking in terms of "whole value chain," not just "next order," and figuring out how to deliver value at multiple points across the breadth of the relationship.

That's where tighter integration with channel partners can offer real advantage. Traditionally, the channel has been viewed largely as a cost-effective means to reach smaller end-users—another set of customers. Today, it has to be seen as a value lever, not just to improve supply-chain efficiencies—reducing waste, lowering cost and ensuring availability—but to expand sales volumes and market share with all customers.

How the channel has already raised its game

The channel's capabilities have grown ever more sophisticated. For instance, **Owens & Minor Inc.** offers an advanced service that enables hospitals to improve surgical case management for maximum savings and efficiency in the OR. The distributor's service, called SurgiTrack, assembles supplies in customized tote bins according to both the specific requirements of upcoming procedures and the physicians' preferences. The bins then ship on a just-in-time basis from Owens & Minor's distribution centers, arriving directly at the OR and freeing up staff time and storage space at the hospital.

Here's another example: Medline helps healthcare providers manage their linen costs with a phased approach that evaluates a facility's current usage and pinpoints opportunities for improvement. The program then provides linen best practices that the facility's staff can follow and gives them a framework for ongoing monitoring. Medline provides the methodology, tools and information needed to manage the project and scale to the whole facility. Healthcare providers benefit with less laundering and lower incidence of hoarding of clean linens.

Leading channel partners, leveraging their proximity to users, are providing more and more value to those users. Smart manufacturers will tap into programs and capabilities like these to their advantage.

Three ways that the channel can add more value

ZS has identified three ways that medtech firms can make the most of the channel to seek equilibrium between supply and demand, realize cost savings and increased efficiencies, and add value to customer relationships:

1. Leveraging data to better balance supply: Medtech firms need solid customer data in order to serve customers adequately while still running a tight ship. Precise information on usage rates and inventory quantities of all of the gauze shipped by a manufacturer, for example, would enable that manufacturer to fine-tune its production lines and optimize its own materials sourcing. It would be able to automate replenishment, streamline returns and consistently meet its customers' needs.

Most medtech companies haven't invested substantially in the systems needed to deliver perfect information—and it isn't necessarily practical for them to do so—but channel partners can help bridge the information gap. For example, Medline offers an online reporting tool that gives providers data and reports that can help them operate their facilities more efficiently. The tool provides both general and specific information about purchases, usage, pricing, orders and shipment status, helping answer questions such as: How much have we spent on med-surg supplies in the last six months? What's my ratio of spend across manufacturers?

Medline's reporting tool is a concrete example of the data that channel partners can supply to medtech firms looking to leverage more customer information. Armed with such detailed aggregated data from the front lines, they will be that much closer to a "single source of truth" about actual usage of their products. Such data—and the insights that can be gleaned from it—can help firms improve operations, refine the design of their products, and envision and develop new products. The data also can help firms enhance the tracking of sales outcomes, evaluate longitudinal claims of outcomes, and identify hospitals with supply issues to improve medtech firms' customer relationships.

2. Expanding the sales effort via strong channel relationships: In many cases, the tail of old products just gets longer. Conventional sutures and staples proliferate into all kinds of specialty closures for bariatric surgery or hysterectomies, for example, but the old product lines are still very much in play. So what should a sales rep do when the customer she's working with wants to discuss re-orders or returns of previous sales?

Channel partners—distributors, in particular—are well placed to ease that challenge. Medtech companies should institute regular product line and category reviews, identifying products that have effectively become "catalog items," the simple products that require little or no attention from sales reps anymore. Incentivizing their channel partners carefully, medtech firms can improve the service that they offer on long-tail replenishment items, for instance. Moreover, by relying more heavily on the channel for those sales, they can free up their reps to focus on teaching clinicians and other hospital staff how to use and get the best out of their more complex products.

Strong channel relationships already pay off in other industry sectors. In industrial manufacturing, for example, distributors run "vendor-managed inventory" programs in which vending machines on the shop floor dispense products such as cutting tools. If a machine operator needs a new drill bit, he takes out his ID card, swipes it at the vending machine and punches in the requisite job number. The machine dispenses the parts, and the job that the machinist is working on is charged for the value of the tools. The drill bit inventory is updated and when it hits a preset minimum, the system automatically places a refill order.

This arrangement could work well for healthcare consumables such as gauze, gowns and wipes—and even for trocars, sutures, and stents. The fundamentals would be the same: The vending system would leverage data, accessing patient records, for instance, and tracking and logging data about the consumables dispensed so that inventory could be replenished and costs could be assigned correctly.

Another path forward would be to divest old product lines entirely, as **Johnson & Johnson** did when it sold its Cordis business to **Cardinal Health Inc.**. For J&J, the business was no longer core, but for Cardinal, it provided a powerful new extension to its services and products. Obviously, the divestiture route is a more finite approach to value creation, but it's still worth considering.

3. Superior service through value-added packaging: Hospitals and ORs need customized service from medtech firms, and channel partners can help those firms deliver.

There may be something to learn from the consumer electronics sector. First, electronics companies long ago mastered the art and science of customizing products and doing so profitably by using manufacturing postponement techniques. Computer components are held in generic form and custom-assembled, often at forward locations, only when a customer places an order. Dell is held up as the poster child of this approach. Some sources note that early in the 2000s, Dell averaged less than four days of completed inventory, whereas its competitors had months' worth of finished stock on the shelves.

Electronics suppliers also are good at collaborating with their channel partners on the "kitting" of parts to meet customers' individual requirements. In medtech, manufacturers could create these tailored solutions and lean on their channel partners for the fulfillment.

Farsighted medtech firms are already leveraging the value chain, seeking "white space" for innovation and looking for ways to involve channel partners to improve efficiency, expediency and profitability. Many partners, such as distributors, data brokers and logistics providers, already have capabilities that medtech firms can harness more fully: processes, systems, teams and tools to reduce inventory, speed throughput, lower costs and enhance customization.

The channel presents worthwhile—and underutilized—opportunities. In many cases, these are existing business relationships that could help medtech firms grow their own businesses by getting to know, and to serve, their customers better.

This is the third in a series of articles from the sales and marketing consultants ZS Associates. (*See also, "When Considering a Merger, Ask Why,"* The MedTech Strategist, *November 18, 2015* and *"How Medtech can Take a Tip From Other Industries,"* The MedTech Strategist, *September 16, 2016.*)

Brian Chapman
is a principal in ZS Associate's Evanston, Ill., office and leads the consulting practice for the firm's medical products and services team. Read more from Brian on ZS's blog The Pacemaker.