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Heaven, Hell, and Distributors

By Dr. Robert C. Keefer

Many overseas medical device and pharmaceutical companies have products that would sell well in the United States, but they hesitate to enter this market. These companies market outside their home countries but don't come across our borders.

Why? One, they perceive that the FDA is too tough and they will have significant difficulties and pay too much to get their products approved. Two, they consider our legal system to be expensive and are afraid of frivolous lawsuits that could put them out of business. And, three, they imagine they would have to build a huge sales force to cover our vast US market.

We've touched on this topic in previous articles, but let's take a closer look at that third assumption. The truth is that, in most cases, the smartest way to break into the U.S. market is to plug into this country's existing distribution network. There are hundreds of experienced distributors covering all healthcare specialties and regions of the United States. Employing the right distributor to market your product can mean very limited expenses on your part, and only a fraction of the cost of direct market entry. In fact, using a network of regional distributors may be the best strategy depending on the product and certain market characteristics. Also, for specialized new medical devices and pharmaceutical products that need client and market education, a small force of your own dedicated technical sales specialists will probably be required to support the distributors.

But first you have to find the *right* distributors and develop a strong relationship with each one on an individual basis, using all your consultative relationship skills. This is important because we've found that once companies decide to use distributors, they frequently become too eager. They sign the first distributor who shows an interest and don't give enough thought to what is really needed to ensure rapid market uptake and long-term success. As in other areas of life, rushing into it can lead to an adversarial, hellish relationship with lots of finger-pointing and a contract that does not give the parties a graceful way out.

It's worth taking the time to do your homework to find a good match and then carefully crafting the contract terms to cover all the basics and contingencies, including:

- Term of contract.
- Distributor's rights in setting price.
- Manufacturer's rights to buyer information.
- Sales guarantees, minimums and milestones.
- Exclusivity.
- Methods for increasing or decreasing prices to meet market conditions.
- Non-compete clause.
- Liability and indemnification – handling lawsuits.
- Intellectual property rights.
- Disposition of remaining inventory at end of term.
- Dispute resolution.
- Methods for managing exchange rate fluctuations.

While the contract serves as the legal foundation, it is the relationship that you build before and after the signatures that is critical. To help you, here are three rules to live by in building a great manufacturer-distributor marriage:

Rule #1: Understand that the distributor's lifeblood and focus is its customers and that *your* customer is the distributor.

You might be the manufacturer but a marketing mindset is required at this point. Great marketers learn to anticipate their customers' unspoken needs and it's no different here. Think of yourself as a marketer in dealing with your customer, the distributor.

Distributors look at your product through their customers' eyes. How are my customers going to receive it? Is it reliable? Is it priced right? If the product is a new innovation that requires more extensive training and education, will my customers be comfortable with my level of product knowledge or will I lose credibility because I can't explain it adequately?

If you have a sophisticated or expensive product, the distributor will be concerned with how much support you will provide — sales materials, sales training and maybe even manufacturers' reps who will work with the distributor's reps to educate the customers. That means you need to be prepared and show them that you understand their needs.

Rule #2: Think of your distributor as your business partner.

It starts with your attitude. There are manufacturers, and even some marketers, who think of distributors as "necessary evils" or, worse, as "parasites on the system taking all their profits." But the wise way to view them is as your customers and your business partners.

There is a lot of value in taking that approach. Business partners renegotiate contracts to win-win solutions when market and industry conditions change. A true partnership helps you weather the cyclical ups and downs that are inevitable in this industry. If you have a great relationship, your distributor is more inclined to work with you if you face difficult times. They will do this if they look at you as a partner who has supported the product and helped them be successful when times were difficult for them.

Rule #3: Know what motivates the distributor's sales representatives.

You sign a distributor, but the individual reps on the street are the ones that will make you successful. That tells you all you need to know in where to spend most of your time to achieve and exceed your sales goals.

A distributor's representative typically makes 20 to 30 calls per day. Each call is probably only 15 minutes at best. The first part of a call is old business — the last product sold, inventory or billing issues, customer questions or complaints. It's only in the last few minutes of the sales call that the rep has an opportunity to present new products.

As the manufacturer, you have to make it easy for them. They are paid to move product, so they have to see how easy it is to make money with your product. Beyond meeting the minimum price point, they should have some freedom in setting the price for their customers. Many sales reps are compensated based on a percentage of the profit of the sale, not a percentage of the sales price. They could get 50% of the price they negotiate over the threshold price point, so they are thinking about price and volume and how long it takes to make the sale. If it takes two or three sales calls to sell your product but one sales call to sell a different product that pays them the same commission, you know which one will get those last three minutes!

You also need to show them that your product is going to be reliable. They don't need to spend 45 minutes on the phone with an unhappy customer; and if they do, you know where the blame will fall. Your job is to ensure no surprises.

Follow these rules to success
Follow these basic guidelines; show your distributor and your distributor's reps that you are working hard for them and helping them close deals with a reliable product they can make money on. They will repay you with sales and their loyalty and a heavenly partnership.

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UPCOMING EVENTS:

BIO-Europe
November 17-18, 2008   Mannheim, Germany
BIO-Europe brings together international decision-makers from the biotechnology, pharmaceutical and financial sectors, offering networking opportunities, workshop participation, and private, pre-scheduled one-to-one meetings. Investment and collaboration opportunities developed in prior BIO-Europe conferences have produced many highly successful business partnerships. Register at http://www.ebdgroup.com/bioeurope/.

MEDICA
November 19-22, 2008, Düsseldorf, Germany
With its extensive ancillary program, numerous special events, two major congresses and the largest product display in the industry, MEDICA is the hub of the medical trade. More than 135,000 visitors are expected to again obtain information on all the current and future trends in in-patient and out-patient care at this annual event. Whether you are a market leader or an innovative newcomer, use the opportunity to present your products and services to an informed audience. Make the decision to be successful in the global medical market. Register at http://www.mdna.com/shows/medica.html.

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