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Successful Selling: Adapting The Distributor Sales Model For A Changing Marketplace

by

There are myriad reasons for companies to enlist distribution partners to sell their products and this sales strategy continues to be the preferred route for many. However, as sales models evolve with the changing health-care environment, the traditional distributor sales model also needs to adapt. In the first of a four-part series focused on sales strategies, Bret Caldwell of global sales and marketing strategy consultants ZS outlines several key steps to improving your distributor sales channel to make it more robust to the new marketplace.

Distributor sales models exist for varied and valid reasons. Manufacturers often opt to leverage this independent sales channel when they have small product portfolios. In smaller markets, companies use them primarily to gain economies of scale as the distributor can combine portfolios of multiple companies to create a critical mass opportunity. Larger industries, like orthopedics, have often leveraged the distributor model as a means for getting capital investment, similar to franchise models, as well as fostering closer local relationships. Others choose this channel for better and faster access to existing "feet on the street" for rapid expansion or access to markets that might otherwise be blocked or difficult.

Regardless of the reasons, the distributor model is still common and has been successful in many markets for a long time, but does its future look as rosy? Is it a model that can persist amid rapid and significant marketplace changes? Is it flexible enough to survive? Or, perhaps due to its independent nature, does it provide a more flexible structure that can

About The Author

Bret Caldwell (*bret.caldwell@zs.com*) is a principal at *ZS*, one of the world's largest business services firms specializing in sales and marketing strategies.

course-correct faster than larger company-driven sales structures? Correctly managed, can a distributor model do as well or perhaps better than direct models?

In today's health-care environment, especially in the US, most medtech firms are evolving and upgrading their sales models to address changing customer needs. These sales channel changes help companies support new sales and marketing tactics like value and clinical-based messaging, and selling to value analysis committees. More sophisticated companies with broader portfolios are also implementing new commercial strategies to better handle increasingly sophisticated centralized purchasing at integrated delivery networks (IDNs), government tenders and other integrated buyers, as well as supporting complicated integrated offerings and services to meet the needs of new market forces like accountable care organizations. Not surprisingly, much of this evolution is led by large manufacturers with diverse portfolios and direct sales models. Many smaller firms are also adapting to the new marketplace, while companies both small and large with distributor-based sales forces are evolving at a much slower pace.

This discrepancy, in large part, is driven by the fact that distributor-based sales teams can be harder to influence and often have a diverse go-to-market structure across many different independent distributor owners. Much of the issue comes from the "independent" nature of the distributors, who by definition aren't employees but instead act as independent agents. This model has served many industries well, especially to support growth, but leaving it unchanged in a rapidly changing marketplace can be a recipe for disaster.

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Which Route To Successful Change?

But this change isn't easy. There are far more examples of failure than success. There are cases where distributors were penalized by the manufacturer for not growing or were pushed too hard to adopt new sales structures and, instead of complying, decided to switch to a competitor brand and take the customers with them, leaving "scorched earth" for the original manufacturer. There are also cases where distributors attempted to make changes but lacked the appropriate people, processes or tools to do so successfully, or were too slow to implement the changes and lost most of the opportunity to competitors. In other cases, companies have tried to take distributors direct, either by buying out the distributor or firing the distributor and trying to substitute a new direct sales force to cover their existing customers. Although this has worked for some, especially in the long run, there are more cases where the strategy backfired and the manufacturer has had to try to either reestablish relationships with the original distributor or pursue new distributor relationships, all while hemorrhaging sales for many months or years.

There are also significant risks from doing nothing. There are many examples of established distributors who refuse to make any change. They're often resistant to change or refuse to invest in the channel because they're already paid well for the business they built and have little incentive to pursue growth or new strategies. In these cases, however, doing nothing allows more nimble competitors to take advantage of the situation to grow and take share.

Is there a solution? Is there a way to evolve the distributor model more effectively? Or is the distributor model dead or dying?

Actually, there's hope, and there are some relatively easy things to be done to help turn the situation around.

Firstly, recognize that the distributors are just as interested in long-term success as you are. You both need each other and should be able to find mutually beneficial ways to course-correct together. The exact approach you should take will depend on your specific needs and situation with the distributor, but at least some of these approaches should apply to almost any situation where you are trying to help change your sales strategy through an indirect distributor sales channel.

One of the simplest approaches may be to add one or more overlay sales roles to help support the specific strategies that you desire. This could include adding a key account management (KAM) role to help with centralized decision makers (for example, C-suite negotiations at IDNs), or specialized reps to support more complicated products or sales processes. This will be easiest to implement if it's funded by the manufacturer, but it's more likely that you may need to negotiate a way to help fund this role by either reducing payments (such as commission rates) to the distributor or separating out the sales that relate to that support from any commission-like payment that you might make to the distributor. Since this additional role will add costs but will also increase sales, it should be relatively easy to find ways to make it fund itself, at a minimum.

It's also worth exploring opportunities to improve the support provided to the distributor, which might not be simple to implement but could potentially have a higher ROI. This can come in many forms, but one of the more common options is providing some type of commercial operations support to the distributor. This can include licensing software like Salesforce.com, providing access to better market data (such as account-level procedure volume data from a third party), conducting sales force effectiveness analysis that identifies opportunities to improve sales force performance, providing insightful reports on historical performance as well as opportunities to grow sales, administering the distributor's incentive compensation plans, or providing any other desired data, tools or process support that the distributor can't afford to support at its smaller scale. This type of support should obviously be focused to support your desired new strategy, and if it's done well and is focused on the most impactful opportunities, it can easily have a 10 times or higher ROI.

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Many companies have some type of distributor manager, an employee of the manufacturer who helps train and coach the distributor reps. Distributor managers should be key leaders in shaping changes in sales strategy, although this role is insufficient when it comes to supporting larger-scale strategy changes, as they often lack the skills, tools and scale that's needed.

To help ensure that the new strategies have strong results, it's important to make sure that you have appropriate contracts, incentive plans and metrics in place. It's impossible to cover all potential contracting issues within one article, but you want to at least be sure that appropriate non-compete and non-disclosure agreements are in place. You also should ensure that contracts can be cancelled or renegotiated within a reasonably short time frame so that new strategies can easily be re-discussed and you have some leverage to encourage successful implementation of strategies.

Since many distributor pay contracts are simple and pay a commission rate based on sales from the first dollar of sales, this may need to be adjusted to implement strategies that desire differentiated focus on specific products or strategies. For example, if you want the distributor to focus less on maintaining current sales and start focusing more on sales growth, you may want to pay a low commission rate up to prior-year sales, and pay a much higher rate for each dollar of growth. Metrics should also be put in place at the beginning of any change so that you have a baseline and can make sure that the data needed for measurement is collected and stored, and is available for periodic metric calculations in the future. This could be as simple as measuring the growth of a product line that's the focus of a new strategy, or it could be more complicated, like trying to track the performance of hospitals covered by IDN contracts versus those without a

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contract.

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Clearly, the use of a distributor sales model can make new sales strategies more complex to implement, but that doesn't mean that the model can't survive marketplace change. With a clear understanding of how the channel may need to change to support a new strategy, a plan to implement that change based on a goal to make the change mutually beneficial, and the development of metrics to monitor success and identify needs for minor course corrections, most any strategy can be achievable and successful. An adaptable, robust distributor sales model can still be very powerful in the US. and in many global markets.

As long as management leverages good planning and execution, and perhaps a bit of creativity, there's no need to worry about the death of the distributor sales model.

[Editor's note:*Views expressed by guest columnists do not necessarily reflect those of* Medtech Insight.]