Synergen.

WHEN INNOVATION MEETS GROWTH



THE BUSINESS OF MEDTECH

Direct Sales or Distributors? Choosing the Right Commercial Model for Your MedTech Product

By Gary J. Sagiv

Synergen MedTech Consultants

THE BUSINESS OF MEDTECH

Direct Sales or Distributors? Choosing the Right Commercial Model for Your MedTech Product

Once a company has decided which markets to enter, the next question is how to reach the customers in each of them. Should you build your own sales team, work through distributors, or combine the two? It sounds like an operational detail, but in my experience it is one of the most important strategic choices in MedTech channel development, because it decides your margins, your speed, your control over the customer and how much cash you need before the first order arrives.

There is no single correct answer. I have worked with both models over many years, and I have seen each of them succeed and fail. What I can offer is the way I think the choice through, and the signs that point one way or the other.

What a direct model gives you, and what it costs

A direct model means that your own people sell to hospitals, clinics or patients, whether through a local subsidiary, employed sales staff or representatives working only for you. Its great advantage is control. You decide how the product is presented, you hear every objection first hand, and you keep the full margin. For a new technology that needs careful explanation, that closeness to the customer can be invaluable.

> **The right commercial model is the one that fits your product, your market and your resources at this stage of the company, and it should be reviewed as all three change.**
>
> GARY J. SAGIV

In the first article of this series I described building a US subsidiary for a company I worked for, at a time when there was no reimbursement code for the procedure. In a situation like that, having your own people in the market has real advantages, because the product has to be explained clinic by clinic and the economics argued in person, and few

distributors will invest that much effort in a product without a code. But a direct model is expensive and slow to build. You carry salaries, travel, offices and training long before revenue covers them, and every new country means doing it all again. If you ask me, it will cost you around $3 million to $5 million in the first year, and then it only increases. I have started two subsidiaries in the USA over the last 20 or more years, and both were successful because we knew ahead of time what the costs should be (and my advice is to add a million or two)!

What distributors bring

A distributor brings what a young company usually lacks: an existing sales force, relationships with hospitals and clinicians built over many years, knowledge of local regulation and purchasing, warehouses, service teams and often the ability to handle registration and importation. In many countries a foreign company would need years to build what a good distributor already has.

The price is a share of the margin and a degree of distance from the customer. A distributor carries many products, and yours competes for their attention every day. If the partner does not understand the device or does not believe in it, it will sit at the back of the catalog, and you may not find out for months. That is why the choice of partner, and the support you give them, matters as much as the choice of model. I will come back to how to find and manage distributors in the next article.

Why the local factor matters in MedTech channel development

One line from a report I wrote after a week of meetings in the United States in 2020 applies far beyond America: most clinics and hospitals in the USA prefer purchasing from local entities. Buyers everywhere want to know that someone nearby will answer the phone, train their staff and stand behind the product if something goes wrong. A foreign company selling directly from abroad has to overcome that preference, and it is often cheaper to work with a local partner than to fight it.

Distribution also tends to work in layers, and understanding them is part of the strategy. On that same trip I met a distribution specialist in Florida with more than 20 years in the industry whose whole business is built around helping smaller manufacturers reach the big national distributors, which are very hard for a small company to approach on its own. For a young company, an intermediary like that can be the difference between being invisible and being on the shelf, and it is worth understanding who those intermediaries are in each market before deciding how to enter.

The signs that point one way or the other

In my experience, a direct model tends to make sense when the product needs long and specialized explanation, when the number of target customers is small and concentrated, when margins are high enough to carry a sales team, and when the market is important enough to justify a long term investment in local presence. A distribution model tends to make sense when the market is far away or fragmented, when local registration and import rules favor a local company, when the product fits naturally into a distributor's existing portfolio, and when your company simply does not have the cash to build teams in several countries at once.

Many companies end up with a hybrid. They sell directly in one or two key markets, work through distributors elsewhere, and sometimes use a master distributor in a region who works with smaller local partners. The model can also change over time. A distributor may be the right way into a market for the first years, and a direct presence may make sense once the business has grown, provided the agreement allows for that transition fairly.

> **Buyers everywhere want to know that someone nearby will answer the phone, train their staff and stand behind the product if something goes wrong.**
>
> GARY J. SAGIV

Patients who find you directly

There is one more channel that every company should think about, which is the customer who finds you on their own. Some of the most valuable inquiries arrive through a website form or a general inbox. One summer a man in Indonesia wrote to the company I represented about its device, and I answered him myself, wishing him a good morning before anything else. Within days I had connected him with our local partner, so that he could speak to someone locally in his own language.

That small episode says a lot about channel design. Even a company that works only through distributors will receive direct contacts, and it needs a clear rule about who answers them, how quickly, and which partner they are passed to. Handled well, those inquiries strengthen the partner relationship. Handled badly, they create conflict between the manufacturer and the distributor, or simply disappear.

Choosing with your eyes open

The right commercial model is the one that fits your product, your market and your resources at this stage of the company, and it should be reviewed as all three change. What matters most is that the choice is made deliberately, with a clear view of the costs and the trade offs, rather than by default.

LET'S TALK

At Synergen, I help medical technology companies weigh these choices market by market. If you are deciding how to sell in your next country, I would be glad to talk it through. Write to me at **gary@synergenmedtech.com** and tell me about your commercialization or international business development challenges. In the next article, I look at how to find, evaluate and manage international distributors.

Synergen.
WHEN INNOVATION MEETS GROWTH

gary@synergenmedtech.com
synergenmedtech.com

If you'd like to follow along, you can find us here:

Website: synergenmedtech.com
LinkedIn: linkedin.com/company/100981535
YouTube: youtube.com/@synergenmedtech

All names of people and partners have been removed for privacy reasons.