

MAXIMIZING PROFITS IN EUROPE

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American Medical Device companies constantly strive to maximize their opportunities in Western Europe as it the second largest market following the United States. The global medical device market is currently estimated at \$239m of which \$71m makes up the European market or 30% of the total worldwide market. Germany, France, Italy and the UK make up over 72% of the European medical device market*. Even though there have been vast improvements for conducting business over the past few years in Europe, differences in language, culture and distance continue to be a challenge for new or established US companies looking for revenue growth and increased market share.

Because of these challenges, US medical device companies tend to look at the fastest and least complicated route to market. Signing up with distributors seems much less costly than deploying a direct sales force infrastructure to cover large areas, and therefore most US medical companies have used or plan to use distributors to reach the end user, be it hospitals, surgeons, labs or clinics. Distributors offer local knowledge of customers, speak the language and have specific device experience, all of which can sound attractive to the US manufacturer.

Although engaging distributors can be a first step in certain countries, as a US medical device company grows in Europe the disadvantages of distributors in major markets can out way the benefits. Depending on the product, distributors can have high margins, limited loyalty, be a representation risk to brand, offer lack of visibility to customers, and have long and costly contracts.

Additionally The EU market is highly regionalized and there are very few single distributors that are capable of providing individual national coverage for specific product lines. Typically US medical device companies have had to appoint a multitude of distributors to cover different countries and/or different product segments. Some US manufacturers choose to appoint a small number of first-level country distributors, which in turn would work with their network of second-tier regional level distributors

As an alternative, a direct sales force offers dedicated local knowledge, customer interaction, brand building, control of pricing and margin, customer interaction and immediate benefit from higher invoicing values, but can be more costly to implement and manage. Typically as the US medical company grows, depending on the product line and country, a hybrid of different sales channels are utilized including OEM relationships, stocking distributors, sales agents and a direct sales force.

So where do US medical companies start or look to improve their position? If you look closer at Europe there are some encouraging signs for US medical companies, such as the introduction of a single currency, the reduction of barriers between countries, and improved communications within specific Countries. These improvements are an opportunity for progressive US companies to take advantage of the market.

As Germany, France and the UK make up 62% of the medical device market in Europe, concentrating efforts in these countries on a direct sales basis could be a good strategy while utilizing distributors in smaller countries and markets. A typical scenario might involve a VP of International Sales along with dedicated country managers that run a mixture of direct sales representatives and agents in a given country.

Timing is critical and many sales executives are concerned about immediate sales by switching from the distributor model to a direct sales scenario. There are many factors that can effect this decision, but if the long-term desire is to plant the company flag firmly in Europe, increase revenues and become customer focused, converting one country at a time can be a good compromise.

Support for the sales force can be achieved through a European Distribution Center (EDC), which would include a customer service department and inventory management. Many companies set up a small office and warehouse so they can ship product directly from their European Operation to the end user and have first level interaction with the customer.

The direct approach requires careful evaluation as it has its challenges such as tax laws, VAT concerns, human resource intricacies, increased overheads and expenses. Some companies overcome these fixed costs and local knowledge hurdles by outsourcing some of the logistic and customer service needs while still enjoying the higher margins of selling to the end user and utilizing their own sales force in certain countries.

A typical maturity curve of a medical device company in Europe may start with a CE Mark and clinical trials followed by a distribution network and eventually a direct sales force and full integration. With careful planning a small to medium size US medical company can enjoy all the benefits of direct sales in specific countries without prohibitive costs by targeting specific countries with different sales channels.

Europe is changing rapidly and the time is right for US medical companies to take full advantage of the opportunities. Distributors used to have a strong grip on territories and customers because Europe was so fragmented with little integration and communication. There is still a place for distributors, but it now can be on your terms and where you choose to use them. By selling to the end user in specific markets your revenues and profits will dramatically increase without a huge increase in costs.

*Source: Frost and Sullivan Devices/Technology. Published: Tuesday, 1-Mar-2005.

About Medlink Europe:

Medlink Europe provides an infrastructure that enables American Medical Device Companies to accelerate European market expansion and revenue growth. With a state of the art Customer Service and Logistics Center in the Netherlands, Medlink Europe assists US Companies to improve services and efficiencies for their customers and reduce operating costs.

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