

Sales Force Strategies for a Competitive Advantage

Whether to pursue direct sales, contract with independents, sell through dealers, or do some of each is a decision requiring analysis.

John C. Zimmer

In staffing a medical company, its executives confront the questions of what type of sales force to employ and where to find the needed sales representatives. It is not unusual for a company to lack a clear perspective regarding the available options. But it probably knows that it must generate solid market share in multiple market segments in order to survive and thrive. Successful application of effort in building a sales force can provide the company with the competitive advantage it seeks.

This article reviews four common sales force structures: direct reps, independent reps, dealers and distributors, and hybrid sales force models. The structure that is most appropriate for a given medical company depends heavily on such factors as the company's size, available cash, sales objectives, and need to establish a market share.

Direct Reps

Direct sales representatives are employees of the company whose products they sell. Sometimes called W-2 reps after the nature of their paychecks, they typically receive a base salary and, most of the time, are also paid commissions and bonuses. These reps represent exclusively the products and services of the company that employs them.

They can be further categorized as inside or outside sales reps. Inside reps almost always operate from within the company building, performing sales calls and sales support functions. Naturally, outside reps perform their duties outside the company, often working from home or from company-provided offices in their territory. A typical day for an outside direct rep involves traveling and visiting customers.

Most inside and outside sales reps collect such benefits as 401(k)s and stock options, and qualify for unemployment. They often qualify for health and life insurance as part of their compensation. Additional benefits for outside reps include an automobile package that may provide a company vehicle or a car allowance or gasoline card.

All direct reps report to a sales manager on a daily or weekly basis and are responsible for an exclusive territory.

Scenarios Suggesting Direct Rep Selling

A medical company may decide to base its sales approach on direct sales reps if at least some of the following conditions are present.

- The company is direct now and finds no compelling reason to change.
- The market size and the company's penetration allow intensive coverage.
- Primary customers are large and geographically concentrated.
- The company's primary customers expect it.
- The company has the ability to attract and hold top sales performers.

A direct sales team can be quite advantageous for a company, providing the sales manager has chosen its members wisely. In fact, having a dedicated sales force focused on promoting only the company's own medical products or services can be a luxury. But this luxury, like most luxuries, comes at a cost.

Benefits of a Direct Sales Force

By virtue of their being salaried employees of the medical company for which they sell, direct sales reps offer certain advantages that the company's executives will not necessarily receive from other sales approaches. These include the following.

- Direct reps devote 100% of their selling effort to a single company and its products.
- Since they are employees, maintaining control over direct sales reps is not an issue.
- Product knowledge is maximized when reps concentrate on a single line.
- Clearly representing a company rather than themselves, direct reps have high credibility among customers.
- Direct reps are easier to manage.
- Some direct reps will develop into company managers.
- It is easier to fit a direct sales force into the corporate culture than to achieve such harmony with independent reps.
- As employees operating within a structured corporate context, direct reps are able to tolerate a weak support organization.
- Good will earned by direct reps accrues entirely to the company they represent.
- Sales-function tasks peripheral to actual selling are readily executed when they fall within the direct rep's job description.

The true expense of a W-2 rep in the medical industry today probably begins with a fixed cost of \$100,000. This figure may be shocking to some medical industry executives. Others will find it simply impossible to afford. The cost of adequately staffing a direct sales force with vertical market specialists is prohibitive for all but large companies, because the fixed costs are too high. And this fixed expense provides no performance guarantees, either.

Good news for large medical device manufacturing companies is that the pool of potential entry-level device sales reps continues to grow, as many college graduates are attracted to the opportunity to get a foothold in the lucrative medical market. These new reps bring little or no experience to the job; however, they do have a desire to prove themselves to their first employers, who will be companies that can afford the cost and time required to train them.

On the other side of the equation, the industry mergers, buyouts, and acquisitions of recent years have led to many well-qualified senior-level medical sales reps losing their positions as direct reps. These tenured employees often become independent sales reps or start their own representative agency or distributorship, using their experience perhaps to sell product lines competitive with those of their former companies.

Independent Sales Reps

Independent sales reps (ISRs), because of their self-employed status, are sometimes referred to as 1099s. ISRs perform a sales function similar to that of direct outside reps, but they work independently of any company they represent. They sell a number of related products, called a portfolio, on a straight commission basis. Other

designations for sales reps of this type include manufacturer's representative and sales agent.

Being essentially business owners, independent reps absorb virtually all expenses themselves. Because they assume these expenses, companies that contract for their services pay them commissions at a higher rate. Independent reps' territories are often larger than those of direct reps. That is because greater geographic coverage may be necessary for achieving adequate compensation.

Most independent reps have a significant amount of medical industry experience, and leverage their established relationships when they go into business for themselves.

Scenarios Suggesting Independent Rep Selling

A medical company may decide to base its sales approach on independent sales reps if at least some of the following conditions are present.

- The company is using independent reps now and finds no compelling reason to change.
- Customers want local representation, and using direct reps to serve that territory is infeasible.
- The company cannot afford the fixed expenses involved in obtaining the intensive coverage desired through direct representation.
- The markets the company serves are diverse and call for various types of sales approaches and skills.
- The company seeks rapid entrée into a new market.
- The company finds it difficult to retain top-performing direct personnel.
- Qualified representatives are available.
- The company can benefit from positioning with complementary products.

An independent sales rep will typically represent five to eight complementary product lines. Each line will have its distinctive price point and buying cycle so as to assure the rep a steady flow of income throughout the year. The rep will devote his or her time to the product lines that stand to pay the most over the long haul while requiring smaller investments of time.

Most ISRs are paid a commission between 10 and 30%. While these commissions are higher than the typical 2 to 5% paid to direct employees, the manufacturer nevertheless sees savings in this arrangement. Benefits such as medical, dental, and vision insurance, life insurance, disability insurance, unemployment insurance, 401(k)s, and annual bonuses are not offered to independent reps, nor are such perks as a company car or car allowance, laptops, cell phones, and expense accounts extended to them. For many companies, these savings can be substantial.

And not only do independent sales reps assume all expenses themselves; they also get paid—collect their commission—only after they have sold something, and in many instances only after the manufacturer gets paid for the product the rep sold.

Different commissions are paid for different products, depending on volume demand and repeat orders, or turnaround. Medical disposables, for example, often bring lower commissions of 5 to 14%, owing purely to the volumes usually characteristic of initial and repeat orders. Commissions for most medical equipment fall between 15 and 25%. Usually, commission rates will exceed 25% only for new product launches requiring some marketing work as well as selling, or if the rep is expected to warehouse inventory.

This commission formula is particularly attractive to the smaller company with annual gross sales of less than \$50 million. In fact, it is standard for the vast majority of

medical device manufacturers starting out and in need of a sales force, which will naturally fall below the \$50 million threshold. According to the Dun and Bradstreet database of medical device manufacturers, only 4% of medical companies have annual sales revenues totaling \$50 million or more. For the remaining 96% of medical companies, annual sales revenues fall below \$50 million.

**Medical Device Manufacturers
Annual Sales**
(2007 Duns and Bradstreet)

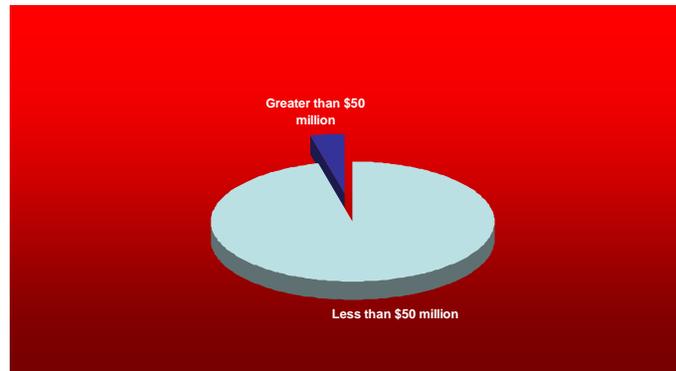


Figure 1. Medical device manufacturers with annual gross sales below \$50 million constitute by far the majority of industry enterprises. Source: Dun and Bradstreet database of medical device manufacturers (www.dnb.com).

A company that finds itself investing the same \$100,000 in an ISR that it would in salary for a direct rep, through payment of a 25% straight commission, is assured of at least \$400,000 in sales with none of the overhead or associated costs of an employee. This is ideal for companies looking to cut expenses while gaining a competitive edge.

Benefits of Contracting with Independent Sales Representatives

Independent sales reps are all businesses in their own right, offering a level of experience and an objective market perspective that direct reps generally do not. Advantages they can bring to medical companies with which they contract include the following.

- Selling in one territory is their life. This means they offer the attractions of customer continuity, closeness to those customers, and knowledge of customer processes. They usually have a proven ability to manage relationships.
- Independent reps, because they are selling a number of product lines, can theoretically lend synergistic strength to the sales effort. They provide the potential for more selling hours devoted to the company's products, in-depth coverage of accounts, the ability to package products into systems, and extra advertising and promotional leverage. As independent businesspeople, they may give the medical company's executives more-objective feedback than direct reps will.
- They are willing to supply systems or turnkey solutions that satisfy local needs.
- They can provide fast access to new or marginal markets.
- Financial advantages accrue from the use of independent reps because of their nonemployee status. They do not restrict cash flow, they represent a variable rather than fixed expense that is tied entirely to sales success, and they influence the balance sheet only positively.
- Their experience qualifies independent reps as a business advisory source.

Independent reps are generally proven top performers. Nearly three-quarters of the independent medical sales reps in the networking database of Global Medical Alliance (Middleton, WI) have had substantial medical sales experience, and two-thirds of them held positions in medical sales management before starting their own business. In addition, most have a college degree, have received additional advanced training, and have acquired sales and sales management awards while working in the industry. A typical ISR in the database is a white male between the late thirties and late fifties in age.

The U.S. Bureau of Labor Statistics stated a few years ago that it expected manufacturers to continue contracting out sales to independent agents rather than using in-house or direct sales forces. The investigation report noted that, “although the demand for independent sales agents will increase over the 2004–2014 projection period, the supply is expected to remain stable, or possibly decline, because of the difficulties associated with self employment. This factor could lead to many opportunities for sales representatives to start their own independent sales agencies.”¹

Dealers and Distributors

In addition to direct and independent sales reps, dealers and distributors can play a role in a medical device company’s sales efforts, too. They provide an additional option for selling products over a large expanse of territory.

The largest medical product dealers and distributorships are often publicly owned and operated. These entities generally purchase manufacturers’ products for resale and assume ownership of the goods—including shipping, billing collections, and even servicing—until they are sold. It is not uncommon for them to handle hundreds of product lines, many of which may compete with others.

Most dealers and distributors will buy products for somewhere between 35 and 55% off the list price, depending on price point and the volume purchased. Their compensation is derived from the margin of sales price over cost price. More often than not, they have a team of salespeople representing their lines.

Reasons for concern about selling exclusively through either dealers or distributors include the lack of selling time devoted to any one product line by any one person, and non-exclusivity: these operators are free to sell products similar to each other in a kind of open competition.

This business model, like that of the ISR, has proven effective in areas where it is not cost-justifiable to hire additional direct reps.

A Typical Problem Among Companies Utilizing Direct Reps and Independent Reps

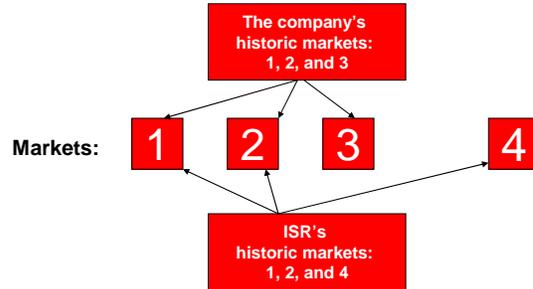


Figure 2. When direct and independent sales channels provide imperfect market coverage, dealers and distributors can fill the gaps. Here is a case, where market 3 lacks intensive coverage and market 4 is an insufficiently addressed opportunity, or perhaps even a hindrance.

Hybrid Sales Models

The medical industry has also seen a trend among midsize and larger companies toward a hybrid model—the use of independent sales reps and distributors in conjunction with a direct sales force. Utilizing such a combination of sales channels can enable companies to meet their sales objectives without sacrificing differentiation in the medical device marketplace. Ideally, a hybrid sales operation should open up prime market opportunities that afford the company the best chance for profitable penetration.

Hybrid Sales Channels

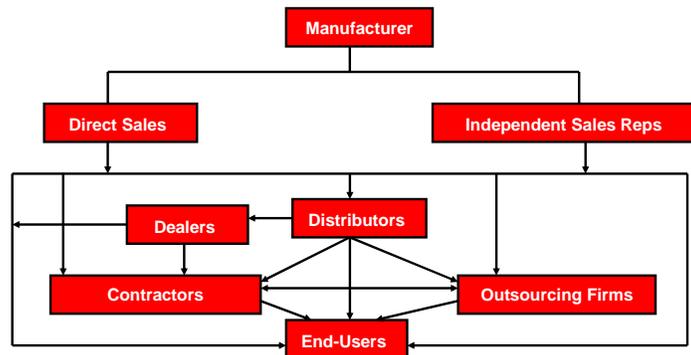


Figure 3. A hybrid sales channel utilizes both direct sales reps and independent sales reps. By capitalizing on hybrid sales channels, a medical company can penetrate ‘middleman companies’ such as outsourcing firms, contractors, and distributors, who in turn sell to dealers. This practice achieves a more complete sales mix among such intermediary companies that ultimately sell to end-users.

The hybrid model is generally suitable when the medical device manufacturer's product or market mix is quite diverse, when its existing sales network does not adequately cover a targeted market, and when specialized reps are available. To establish a smooth-functioning hybrid system requires first developing a clear sales channel design concept covering the full market reach. Then, management should adjust the design for each trading area according to its distinctive features. The contracts negotiated should include market exclusivity clauses or should achieve that end through customer assignments.

Once regarded as a solution reserved for small start-up companies or small divisions within large companies, the hybrid model with its incorporation of independent reps has become increasingly popular with larger companies. The reason is that ISRs complement the direct sales force's efforts in rural areas where the territory is expansive and where long-standing relationships are necessary to move product. Also, when maintaining such relationships requires more attention than a distributor can provide, the independent rep offers that capability.

Managing a sales force of independent sales reps is quite different from working with direct reps. Each group requires a different management style. The manufacturer should establish a management foundation that supports each appropriately in a hybrid operation.

Assigning specific geographical areas to reps in a hybrid arrangement, manufacturers should keep in mind that sales personnel invariably focus on products and markets that interest them and that give them the maximum return for their effort. A company cannot afford to create a territory for a particular sales rep just because it is convenient for the company. Attending to the best interests of all parties is the way to provide a return.

To ensure the success of a hybrid sales operation, support should come from the very top of the company. Unqualified support motivates sales reps like nothing else will.

Criteria for Selecting an Approach

To determine which type of rep to use to sell its products, an organization needs a clear understanding of itself, of the market environment in which it is operating, and of the factors likely to significantly influence its business in coming years. Management style, expense, and strategic needs are criteria a company should consider when deciding what type of sales force to create.

Management. If company management requires close control of the sales force, then a direct sales approach is to be preferred. Independent sales reps, true to their name, are not likely to accept close management. Regular communication via e-mail, voice mail, and conference calls are best suited for managing a direct sales force, while phone calls are the best means for communicating with independent reps. If management has a need for regular reporting, forecasting, and other weekly exercises such as clinical feedback and data gathering, then direct sales representation is optimal for maintaining fullest control over the sales force.

Control, however, should not be a managerial objective. The objective of any sales executive is to increase sales. Control is nothing more than a managerial style used to achieve company goals.

This does not mean that independent reps will not perform reporting, data gathering, and other tasks; they simply will not perform them with the same frequency as a typical direct rep. Direct reps are expected to perform a number of activities peripheral to the sales function itself in order to justify their base salary. Independent sales reps would quite naturally care more about productivity than activity, because without results, they don't get paychecks.

| Peripheral Sales Activity | Direct Reps | Independent Reps |
|----------------------------------|--------------------|-------------------------|
| Reporting | Daily | Monthly |
| Forecasting | Monthly | Quarterly |
| Meetings | Quarterly | Annually |

Table I. The frequency with which direct and independent sales reps might be expected to perform certain communication activities in support of the selling function.

This means that sales managers should abandon traditional boss-subordinate control practices and expectations. Independent sales reps are essentially peer-level organizations that team up with a company to achieve a mutually desired objective—in-depth penetration of targeted markets in the rep's trading area—and should be treated accordingly. Recruitment, support, and monitoring of independent reps differ in kind from the approach taken with direct reps.

Cost-Benefit. When the expense of having a direct rep in a sales territory is not sustainable, using an independent rep may provide an economically advantageous alternative. The same goes when the issue is selling a particular product that is not the primary focus of the company. Cost directly assignable to the ISR sales channel is defined as variable cost. This means that the cost is zero at zero sales volume. Taken all together, manufacturers have a much better cash flow position when they use independent sales reps rather than a direct sales force.

Strategic Approach. If a company believes that well-established relationships and technical expertise are necessary to sell its device or service, then independent sales reps should in theory provide an edge over direct reps in terms of strategic advantage. This is not to say that direct reps cannot offer tenure. Many can, but they command a high base salary most of the time, increasing the liability of the company. Often, this kind of salary is out of reach for smaller companies and small divisions of larger companies, where large fixed compensation is typically reserved for owners or executive managers.

Another factor is that direct reps often require more-extensive training than independent reps do. One reason for this, of course, is that many companies hire direct reps straight out of college; these beginners have very little or no sales experience or knowledge or experience of the medical industry. On the other hand, when a company hires an independent rep, that rep probably already has a relevant background. Such a rep can have an impact to the bottom line much sooner.

Recruitment Considerations and Costs

Whatever type, or types, of sales representation the medical device manufacturer opts to use, the company should give consideration to the costs associated with finding qualified reps. There are always costs involved in recruiting talent, whether the company

employs internal resources to locate and attract sales reps or chooses to utilize an outside resource such as a recruiter or employment agency.

A company may believe that it can minimize the cost of recruiting by depending on its human resources department to place advertisements in magazines, newspapers, or Web pages. But this process can be very time-consuming once it comes to sorting through resumes, making e-mail inquiries, taking telephone calls, and setting up interviews.

Another consideration is the knowledge and experience of the person conducting the screening or interviewing. For an inside employee of the company to hire an administrative coordinator is one thing; but that person may be unqualified to hire a direct rep, much less an independent rep.

Therefore, some companies use professional recruiters or employment agencies in order to take advantage of the skills and established networks only they offer. Medical industry recruiters typically specialize in the recruitment of direct reps. Those operating in the United States number easily in the hundreds. Because so many are available to choose from, it is advisable to ask around in order to determine which industry colleagues have had success with particular recruiters.

Focusing on creating relationships with specialist medical industry recruiters is advantageous because their pool of possibilities will consist largely of experienced medical device salespeople. Applicable experience greatly minimizes the amount of time the hired or contracted rep will need to get up to speed. By contrast, general sales recruiters and employment agencies often will have a network of available reps who are only looking to break into the medical device industry.

The only likely way to cost-effectively achieve maximum market penetration through sales representatives is to hire in the first place people who already possess all the requirements for doing the job. Thus, the search should be conducted intensively and aggressively, with clear objectives in mind.

Conclusion

Different medical companies have different needs when it comes to finding customers for their products through the sales function. A variety of approaches are available to them. Careful consideration of the options in the light of self-understanding should reveal which sales force strategy is most likely to deliver the competitive advantage each company seeks.



John C. Zimmer is president of Global Medical Alliance LLC (Middleton WI), a premier global networking consultant that aligns medical device manufacturers with independent sales representatives. 1-877-836-3596 www.globalmedalliance.com

Reference

1. U.S. Department of Labor, Bureau of Labor Statistics, “Sales Representatives, Wholesale and Manufacturing,” in *Occupational Outlook Handbook*, 2004–2005 ed., Bulletin 2540 (Washington, DC: GPO, 2004).

Connections

A number of organizations and associations are prepared to assist medical companies by providing information on working with both independent and direct sales reps. Following is a list of groups serving the medical sales field.

Global Medical Alliance LLC (GMA)

www.globalmedalliance.com

Health Industry Distributors Association (HIDA)

www.hida.org

Health Industry Representatives Association (HIRA)

www.hira.org

IMDA (formerly Independent Medical Distributors Association)

www.imda.org

Manufacturers’ Agents National Association (MANA)

www.manaonline.org

Manufacturers’ Representatives Educational Research Foundation (MRERF)

www.mrerf.org

National Association of Medical Sales Representatives (NAMSR)

www.medicalsalescareer.com

Wisconsin Biotechnology & Medical Device Association (WBMA)

www.wisconsinbiotech.org

Sales Rep Job Boards

A recent Internet phenomenon is the appearance of job boards linking sales reps with manufacturers in need of them. These bulletin boards enable companies to shop online for sales talent and help sales professionals locate needy companies of interest. Some of the job boards are specific to the medical industry. They include:

HealthcareReps

www.healthcarereps.com

MedRepCareers

www.zitolist.com

MedDeviceJobs

www.meddevicejobs.com

MedicalReps

www.medicalreps.com

RepHunter

www.rephunter.net

ZitoList

www.zitolist.com