

BAIN & COMPANY

**The New
Sales and
Distribution
Imperatives**

Health Care Viewpoint

Number 2



Bain health care expertise

As the year 2000 approaches, the health care industry is still turbulent. Customer requirements and competitive dynamics continue to evolve. The industry is seeing more deals, more alliances, more investment, and more experiments than ever before. It's not always clear whether a new approach is a fad or a real basis for leadership in the marketplace. Health care organizations are rethinking every element of their strategies, structures, and business practices to find the path to sustainable results.

Bain & Company helps health care companies navigate a course to outstanding results. We work closely with motivated management teams to create a clear map, a goal and direction for achieving not incremental improvements, but full potential returns.

Bain's global health care practice combines expertise, an industry network and years of experience accumulated across all parts of the health care industry. Bain helps health care companies, including product suppliers, distributors, providers, and payers worldwide, select a strategic course and create a practical migration path to the goal.

evolving with the **customer**

Managed care is changing the buying and selling process for health care products.

Provider economics are shifting from cost plus or fixed revenue per procedure to fixed revenue per population. Providers must align their interests with clinicians' by focusing on product utilization, systems cost and outcomes.

The traditional supplier sales model – product detailer calling on clinician – is losing power to the payer, the distributor, the consumer and the purchasing group network. Suppliers must keep pace with the evolving structures and requirements of evolving local health care markets. Fundamentally new approaches are required for all elements of the customer interface: product marketing, sales, distribution, service, and pricing.

The New Sales and Distribution

Five Imperatives

1 Product Marketing

The basis of differentiation is shifting from clinician-preferred features to system-wide costs and outcomes impact. Products will increasingly be evaluated on their economics of utilization and associated impact on procedure outcomes. Increasingly, there will be returns from investments to quantify the utilization and outcome economics along with marketing their benefits tailored to the range of constituent needs.



2 Sales

Most of industry selling capability is still focused on the clinician. Growth of purchasing groups in the 1980s forced companies to create national account and corporate salesforces. Managed care requires team-oriented consultative selling to coordinate across the range of decision-makers and influencers and to manage a range of interrelated, procedure-based products and services. Salesforce requirements vary from region to region and product to product, based on local managed care penetration and product characteristics. Sales management will need to select the appropriate mix of sales approaches and continue to adjust them as markets evolve.

3 Distribution

Historically, distribution has been viewed as a low value-added function. Use of distributors has been driven by traditional “make-or-buy” economic analysis. In a managed care environment, distribution plays a much higher-value role driven by the increased complexities of meeting regional network and other channel requirements. Hospitals have documented spending 25¢ to \$1.00 of internal system cost for every dollar they spend on product. Regional networks, which bring together hospitals, alternate site providers, and direct customer relationships, create additional distribution complexities. Distribution can be used as a lever to reduce system cost as well as to meet new regional network and other channel requirements. Distributor consolidation, stockless/JIT delivery, mail order, OTC distribution, and strategic alliances between manufacturers and distributors are all examples of the higher value-added potential of distribution.

4] Service

Analogous to the vital role of distribution under managed care, value-added services are shifting from “nice-to-haves” to integral components of providing the best system cost and outcomes. Providers are being forced to become increasingly procedure-focused and to “make” themselves only what they can most economically produce. Outside suppliers are being asked to take over non-clinical functions to take advantage of the suppliers’ scale and expertise. Wrapping related high-value services around products can help the customers reduce their total costs and/or improve outcomes. But those savings must be measured and quantities must be valued.

5] Pricing

Before managed care, providers could afford to buy higher-featured products at ever-rising prices based on clinician preferences. Under managed care, providers have attempted to either 1) view products as commodities and squeeze prices, or 2) develop new relationships with suppliers that align incentives around procedure system cost and outcomes management. Suppliers—either alone or in partnership with other product and service suppliers—need to explore creative options to “capitate” their pricing that go beyond the first round of “risk sharing.”

Integrated Strategies

Winning under managed care requires fundamentally new approaches across all elements of the customer interface. Piecemeal changes will not be sufficient. Winners will objectively and creatively leverage their internal capabilities, as well as partnerships, to align their customer interface resources and value propositions by target constituent and segment.

Bain is one of the world's leading global business consulting firms. Its 2,400 professionals serve major multinationals and other organizations through an integrated network of 26 offices in 18 countries. Its fact-based, "outside-in" approach is unique, and its immense experience base, developed over 26 years, covers a complete range of critical business in every economic sector. Bain's entire approach is based on two guiding principles: 1) working in true collaboration with clients to craft and implement practical, customized strategies that yield significant, measurable, and sustainable results, and 2) developing processes that strengthen a client's organization and create lasting competitive advantage. The firm gauges its success solely by its clients' achievements.

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