

Creating Stronger Medtech Partnerships to Increase Growth.

Part 1 – Contracts & KPIs

Introduction

In the medical device, equipment and supplies (medtech) industry, collaborative partnerships between manufacturers and distributors are critical to market success.

- Why do we spend so little time trying to manage and improve these relationships?
- What can we do together to ensure that fewer partnerships fail?
- What are the keys to success for driving sales growth through great partnerships?

Our panel of industry experts discuss how to create stronger, more successful partnerships in new and existing relationships.

Note: For the purpose of this discussion, we assume that we have the right partner as we discuss how contracts and key performance indicators can help create stronger, more successful partnerships in new and existing relationships.

Panel Members



Tim Emo – VP, Vernacare, North America

Tim is the Vice President, North America, for UK-based medical products manufacturer Vernacare. Tim has full responsibility for the strategic direction and daily operations of both the Canadian and US markets for Vernacare. Over Tim's 26 years in the medtech industry, he has served on the Business Leadership Council of Practice Greenhealth, the Healthcare Supply Chain Network and currently sits on the Ontario & Supply Chain Committees of Medtech Canada.



Scott Newton, Co-Founder and Industry Advisor, myCaribou

Scott has over four decades of success in international Medical Device markets with Hillrom, DeRoyal, CR Bard and Cardinal Health. Scott now brings his network and depth of experience to myCaribou. In senior leadership positions with multi-national organizations, Scott's achievements include channel infrastructure creation, strategic alliances, mergers and acquisitions, product and brand positioning, general management, and multiple stakeholder engagement—all on a global scale. At myCaribou, Scott facilitates relationships with industry partners to provide the company with meaningful development concepts for strategic direction.



Stéphan Toupin, CEO, Dawa Medical

Over the last 27 years, Stéphan has gained a wealth of experience in the medtech and pharmaceutical industries with Astra Zeneca, Biovail and Novo Nordisk. Stéphan founded Dawa Medical in 2015 to collaborate with foreign medtech manufacturers to enter and succeed in the massive US market. Dawa Medical is a United States Initial Importer and FDA agent, with warehousing and distribution capabilities. Dawa Medical also offers services for the Canadian and Latin American markets.



Contracts - Question #1: What are the key terms of a contract that will ensure alignment of partner goals? [4:55]

Before we dig into the details of what to include in contracts, it's important to note that contracts should be built for both parties to succeed. This is an important detail that is often overlooked during negotiations and is key for collaborative relationships.

Take the time to really understand the market you are entering. There may be elements mentioned below that are irrelevant or not aligned with your market depending on what country and/or region you are entering. This could cause issues down the line where the business is failing. If you don't understand the market upfront, then you will not be able to set contract terms to set both parties up for success.

Key elements to include in contracts:

- Exclusivity or not – this is key to determine the partnership
 - What territory is the distributor allowed to cover?
- Sales forecast numbers, commitment, and targets
 - Include a buffer of time to enter the market, get approvals and ramp up before requiring sales stats
- Set the dates or timelines for business reviews
- Insurance
 - This is often under looked
 - Ensure you have this in place
- Pricing
- Number of samples to be given
- Payment terms
- Term of delivery
- Termination clause in case of acquisition or arbitration
- Both parties to ensure that the customer facing team is well educated on the product
 - Manufacturer provides training on an on-going basis (for new employees or product changes)
 - Distributor maintains and adequate level of product knowledge



Facilitate a successful partnership in myCaribou workspaces:
<https://support.cariboumed.com/workspaceplaybook>



Contracts - Question #2: What are some of the terms to avoid in contracts? [11:44]

Sometimes, terms and clauses are agreed upon upfront to just “get the deal done.” This can be very damaging and costly. Always take the time to understand every term and keep a close eye on the ones mentioned below.

- Exclusivity must be reciprocal
 - Distributors asking for exclusivity, should also be exclusive to the manufacturer
- Be wary of volume commitments and stocking inventory
 - This can be very costly to the distributor, make sure you challenge the expectations
 - Excess inventory (especially ones with expiry dates) can cause the finger to be pointed at you, that you didn't do the job
- Ensure teams on both distributor and manufacturer side are speaking to each other before the contract is signed
 - Regulatory teams should be speaking to each other to see if there are any red flags that appear
 - Logistics teams speaking, to understand for example, what a full pallet looks like and why it benefits both sides



Webinar: Why Manufacturer & Distributor Partnerships Fail so Often in the Medtech Industry:
<https://cariboumed.com/resources/videos/why-manufacturer-distributor-partnerships-fail-so-often-in-the-medical-device-equipment-and-supplies-industry/>



Contracts - Question #3: How do you establish distributor margins and how do you incorporate that into a contract?
[19:35]

- Margins are not static, changes to product life cycle, competition, etc. will change margins over time
 - Much like your relationship, margins will evolve overtime
- They need to be reasonable and fair to all – market driven
- To really establish a long term, sustainable partnership, distributors should be transparent with margin levels, even though it may seem like you're giving away your cards
 - This builds trust
 - It allows market changes, fluctuations, to be discussed in an open way
- This depends on what the manufacturer is asking of the distributor, the larger the commitment the larger the margin required
 - Are they providing logistic services, box movement, order to cash?
 - Are they an extension of your sales force – actively selling, converting and working with customers in the field?
- Competitive position in the market place – is it a commodity?
 - Margins tend to be lower for lower levels of competition
- A basic formula may be looking at:
 - Acquisition cost to the distributor
 - Agreed upon list price ranges
 - Is the distributor using a selling agent?
- How does inflation impact margins?
 - Manufacturers can have trouble passing on these rising costs to distributors, and at times they could even have less margin than a distributor
 - Have conversations upfront on what you will do if inflation starts impacting margins
 - Could be a short-term surcharge, or require a price realignment
 - Keep transparency and continuous conversations with your partner to allow for constructive conversations when inflation impacts revenue



Facilitate a successful partnership in myCaribou workspaces:
<https://support.cariboumed.com/workspaceplaybook>



Contracts - Question #4: In an earlier panel discussion, a former executive from Cardinal Health stated that “if you get to a point in the partner relationship where you have to pull the contract out for discussion, the relationship is probably over”. What are your thoughts on that statement? [28:21]

Will depend on when the contract is getting pulled out, and how frequently

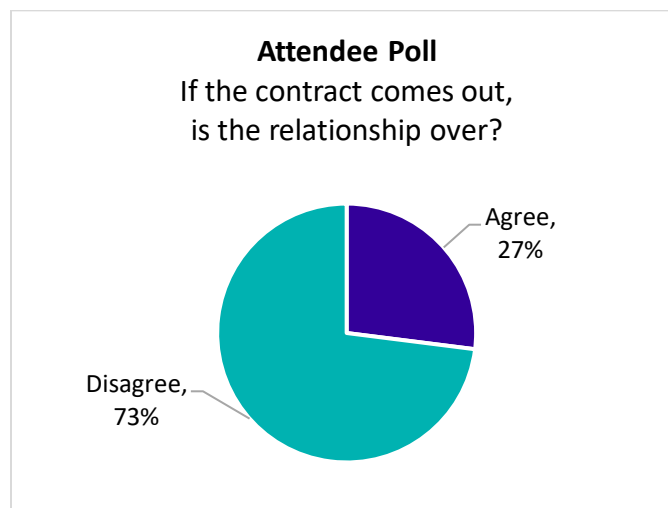
- In the beginning of the relationship, the 3-6 months, it will probably be pulled as parties are understanding how do we work together
- 10 years into the relationship if the contract is coming out, that is a warning sign
 - Why suddenly is this happening – could be sign that the relationship is over

Disagree that the relationship is over:

- You may have multiple contracts at any given time, it isn't easy to keep up with what each contract includes
- During quarterly reviews, if you see something is not aligned, the contract can help you facilitate the discussion to remind each party of what was agreed upon at the beginning of the relationship
 - This does not mean the relationship is over

Agree that the relationship is over:

- If further down the road the contract is pulled, this is a great indicator the relationship is going south
- If the contract comes out, that means there is a misalignment between the two parties and a good indicator that one party feels the relationship is not working



Manage and add your contract in myCaribou workspaces: <https://support.cariboumed.com/add-files>



KPIs - Question #1: When MedTech manufacturers and distributors start working together in a market, why is it so important to establish key performance indicators (KPIs)? [32:17]

At the beginning of contracts, it cannot be assumed we're going to work together and hold business reviews, this **needs to be baked right into the contract** to ensure both parties understand the mutual expectations. This requires both parties having AND managing KPIs on an ongoing basis between the different stakeholders of each business.

- Manufacturers should work with the distributor to create KPIs that make sense for BOTH parties
- KPIs drive engagement between the parties
- Often a contract is developed between two people, within two organizations, that are not going to be involved in the execution
 - Its one thing to have the best laid plans, but it must work
 - You need expectations, execution, and involvement from multiple stakeholders
- “Memories can be short”
 - Use KPIs to stimulate conversations, and to keep in mind the success factors you need to succeed



Video podcast Establishing Key Performance Indicators (KPIs) with Denis Cantin:
<https://cariboumed.com/resources/videos/mycaribouconnections-001/>



KPIs - Question #2: **What are some sample KPIs you have used previously with success?** [37:05]

Operational KPIs

- Inventory on hand
- Back orders
- Turns
- Fill rates
- Forecasting accuracy

Sales KPIs

- Sales targets / conversions
- Number of conferences that the manufacturer will invest and/or participate in
- Number of trials
- Number of introductions
- % of selling time

Comment from the audience: If you put too many KPIs in front of a smaller distributor or agent they will be worried and potentially run

- You should factor in the size of the company you are working with and perhaps only focus on a few KPIs for smaller distributors or sales agents
- Not all partnerships will have the same KPIs



Create a Scorecard to manage and track KPIs in myCaribou:
https://support.cariboumed.com/create_scorecard_plan



KPIs - Question #3: How do you track and manage KPIs? [40:50]

- Should agree beforehand how you will track and measure these
 - Monthly to start, then move to quarterly basis
 - Keep open communication not just on quarterly review calls, with texts and emails
 - How is going?
 - Do you need any support?
- How a manufacturer tracks KPIs will be different than distributors
 - You want to ensure transparency and that you both have the complete picture
 - Information shouldn't be one way
- Having a supplier scorecard with the operational KPIs works well
- Spreadsheets have been a standard option
- Tracking KPIs in myCaribou workspaces with scorecards creates transparency and accountability
 - Constant visibility and transparency ensure that the quarterly business review goes smoothly and no one is surprised



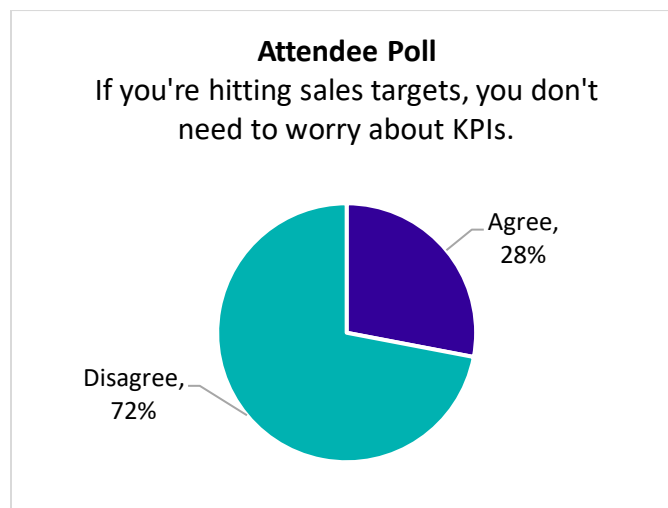
Facilitate Quarterly Business Review in myCaribou: <https://support.cariboumed.com/facilitate-a-quarterly-business-review>



KPIs - Question #4: Some would argue that if we are hitting our sales targets, we don't need to worry about KPIs. Do you agree with that? [45:24]

Disagree, you always need to focus on KPIs

- If you're hitting your sales targets, even more reason to focus on KPIs to understand what contributed to this
- By not having a KPI review, you may be celebrating mediocrity, you may have misjudged the market potential
 - It may expose contract terms that you may have missed or misjudged
- If you're measuring on monthly vs quarterly basis, it could be a one-off spike in activity levels – don't take your foot off the gas
 - You may have missed something that could negatively impact next quarter
- If all sales from a distributor is coming from one account, and for some reason they stop buying from the distributor, sales go down to zero
 - With low selling activity then it will take time to ramp up sales again
 - You don't want to put all your eggs in one basket



Closely monitor KPIs in your workspace dashboard in myCaribou:

<https://support.cariboumed.com/how-do-i-add-a-sales-plan-to-my-workspace-dashboard>