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► By Michael Scholl, Karl-Hubertus Gruber and Michael Marquardt

**MICHAEL SCHOLL, KARL-HUBERTUS GRUBER AND MICHAEL MARQUARDT\*** offer a step-by-step guide for medtech companies on how to scale past the sales plateau and move towards continued growth



Many mid-sized medtech companies are confronted with a growth hurdle when the sales of their introductory products begin to plateau. This may be a result of changing customer needs, first competitors' reactions or it could simply be a case of their products having reached their natural revenue peak.

To overcome this critical hurdle, companies have to quickly adapt their strategy to the new situation in terms of a market growth perspective.

But how do they do that in a systematic way to ensure they are on the right track to growth recovery and that their strategy is robust?

In developing a solid growth strategy, there are three distinct phases – each comprising two steps – that companies must address thoroughly (see Figure 1). The first phase, the descriptive phase, is about establishing facts and identifying trends. In the second phase, the interpretative phase, the results of the descriptive analyses are systematically integrated and interpreted with respect to possible growth dimensions. In the final, normative phase, information and insights collected from the previous two phases are integrated to form a solid growth strategy. From this, action steps and milestones can be drawn out and embedded in a transformation map, before the company finally executes the new strategy.

While this guideline can be applied to all mid-sized medtech companies, this article has focused on IVD companies as an example throughout.

### **A. Descriptive phase: Analyzing the status quo and identifying trends**

The overarching goal of the descriptive phase is to understand the market. This phase is dedicated to creating a fact-based description of the market and to collecting different perspectives. To that end, several sources can be used. Secondary sources (eg, internet research, practical and academic journals, market research reports, company databases) are useful for collecting information, reaching a basic understanding and formulating hypotheses about market processes and interdependences. Qualitative, primary research such as interviews with internal (eg company specialists and managers) and external experts (eg practical and academic experts; former, current and prospective customers) then help to complement and refine the basic understanding as well as to provide deeper insights and to test the formulated hypotheses.



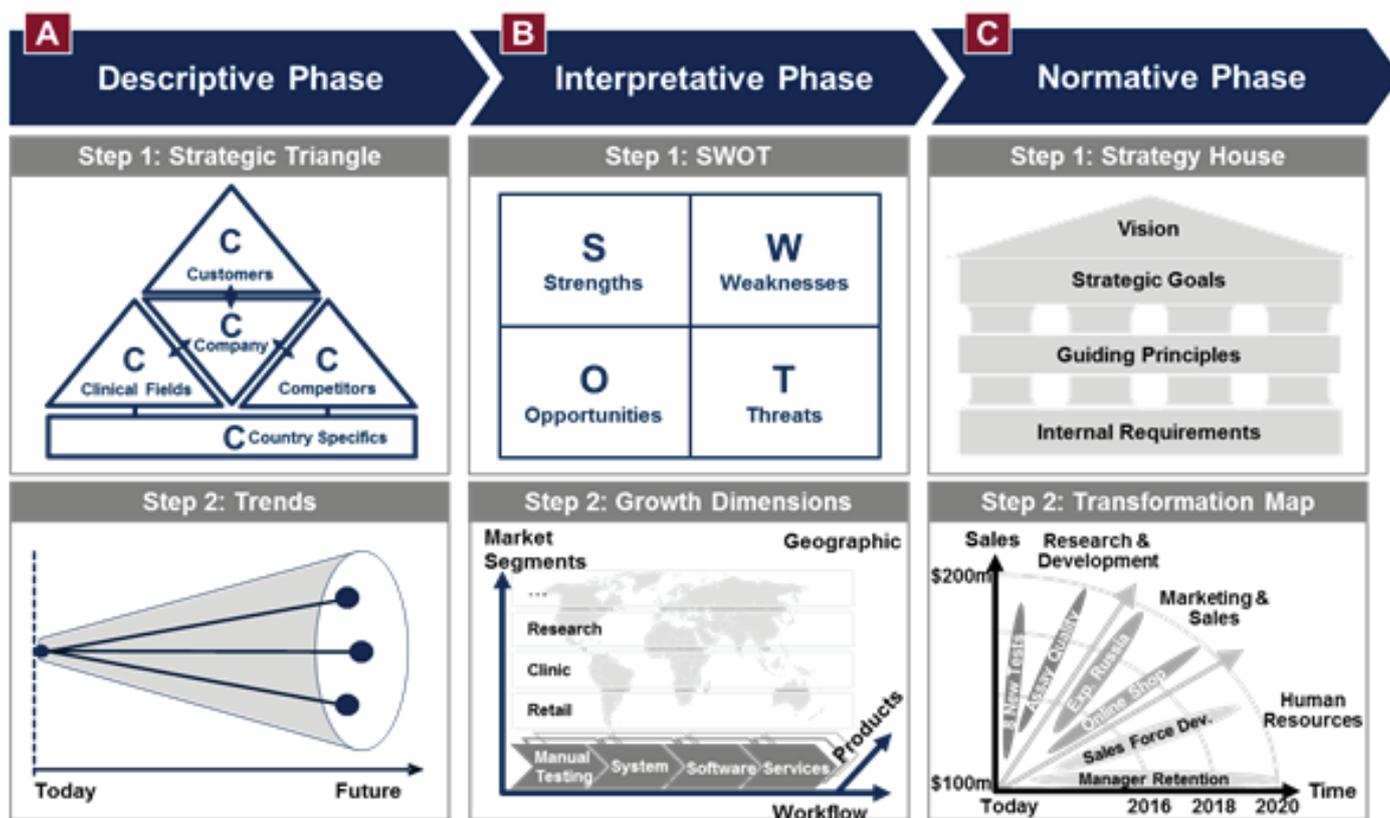
*Michael Scholl:* The overarching goal of the descriptive phase is to understand the market - trends will form the future market and thus determine

the success of the company's positioning and marketing efforts

### **Step 1: Understanding the status quo**

To achieve a thorough understanding of the current market situation, we recommend working on an adapted version of

**Figure 1: The three phases of growth strategy development**



the 5C framework, well known in market research. The 5Cs, in this case, refer to: your Company, Competitors, Customers, Clinical fields, and Country specifics (see Figure 1).

**Company:** With respect to the company, the focus lies on how your company currently cultivates the market (eg, distribution channels, customer targeting, customer relationship management, positioning), the changes it is able to accomplish and the resources it can mobilize (ie, unique selling propositions, brand, quality of tests, diagnostic machines).

Here, it would be useful to apply the 4P model (ie, Product, Price, Place and Promotion), which gives structure when analyzing the company's products and their price tags: To identify key products in the company's portfolio (eg central assays) an ABC-analysis can be conducted: A-products are the top products in the portfolio that together contribute 50% of overall sales, B-products the next 30% and C-products the remaining 20%.

Next, you need to look at places where products are promoted (ie the distribution channels) and scrutinize the communicational specifics of promoting them. Central to these analyses is the mix of these elements (eg type of product, distribution channels, price tags) as well as their fit with preferences and needs of the targeted laboratory types. In general, IVD companies rely on direct channels such as their

sales force and online shops or indirect channels such as wholesalers who in turn sell the products to laboratories.

**Competitors:** The competitor analysis basically mirrors the elements of the company analysis, however with respect to the relevant competitors. After identifying the market leader(s) and competitors, as well as their strategic positioning, we recommend, for instance, benchmarking competitors' product portfolios (eg, broad vs. follower, me-too vs. niche). To learn from successful growth strategies of other companies, best practice cases can be identified by applying the 4F model (Family, Friends, Fellows, and Foreigners) to the different players in the field.

For an immunodiagnostic company, "family" is a comparable company in the same market (clinical diagnostics), of similar size, producing tests for similar indications (eg in the field of oncology) based on the same technology (ie immunodiagnos- tics). Friends would also be located in the same market (ie clinical diagnostics), also using the same technology (ie immunodiagnos- tics), but providing tests for other indica- tions (eg in the field of hematology).

A "fellow" to this immunodiagnostic company would be a company using another technology (eg molecular diagnos- tics), but addressing the same indications, whereas a "for- eigner" would be a molecular diagnostics company located

in a different, but close, market (eg veterinary diagnostics) that also addresses other indications (eg in the field of infectious diseases).

**Customers:** Customer types should be grouped according to relevant characteristics (eg test throughput per annum and grade of laboratory specialization based on, for instance, indication fields or testing technology) in order to identify their central needs. Due to the high throughput of tests, large laboratories might be more focused on variable costs associated with a diagnostic platform—that is, prices of reagents running on the platform—than small laboratories. The latter might be interested in the test portfolio that the platform offers rather than reagent prices, because the platform itself already represents a severe investment and several platforms to cover all types of relevant tests cannot be afforded.

**Clinical fields:** Based on the analysis of clinical indications and their comorbidity and prevalence, we recommend sketching a map of customer needs associated with the relevant clinical or indication fields. The map illustrates which products and tests are more likely to be bundled together (ie requested often in combination by physicians when sending blood probes to a diagnostic laboratory and thus more frequently tested at the same time in that very laboratory) and this way helps to identify options for portfolio expansion and optimization. For instance, from a recent analysis, we learned that immunoassays for vascular calcification are more likely to be requested together with tests for blood coagulation than with tests for most allergies. This suggests that a company that has, to date, concentrated on tests for vascular calcification might be also successful with tests for blood coagulation with the same customers.

**Country specifics:** Regarding country specifics, one can isolate regional or national differences in comparison to the home market. We recommend doing a PEST analysis (ie analyzing Political, Economic, Social and Technological factors) to examine country and regional specifics. To identify markets with high potential, companies should analyze prevalence rates of diseases, socio-cultural standards, the political framework, legal market barriers and key success determinants. In China, for instance, testing for infections associated with hygienic standards is more popular than testing for fertility, which in turn is more popular in developed economies where older people strive to have children.

## Step 2: Making the future predictable

Trends will form the future market and thus determine the success of the company's positioning and marketing efforts. The trend analysis should also be performed with respect to the fields defined in the 5C framework in the sense that relevant

market developments are extrapolated into the future. We recommend assessing each trend quantitatively and rating it according to two criteria: first, the likelihood of its occurrence and, second, its prospective effect on the company's business. With respect to indication fields, it becomes evident that various indications in the fields of infectious diseases and oncology that are currently being tested with immunodiagnostics will be done through molecular diagnostics in the future. That switch will be most relevant for companies generating high sales within the fields of infectious diseases and oncology but less so for those in other fields. In this example the likelihood of the trend could be quantified by percentage estimations of market experts (eg "likelihood of occurrence = 80%"), and the business impact of the share of affected assays in the company's portfolio (eg "30% of all assays").

## B. Interpretative phase: Identifying the relevant insights and interpreting their consequences

In the interpretative phase, market characteristics and trends that are relevant for the company's success are identified. Based on this analysis, initial tactical and strategic analyses are performed to derive possible future fields of growth for the company.



*Karl-Hubertus Gruber:* The SWOT analysis should help determine which are the go and no-go areas that provide the boundaries within which the company defines relevant

dimensions for future growth

## Step 1: Doing a thorough SWOT analysis

**SWOT analysis:** By doing a SWOT analysis (Strengths, Weaknesses, Opportunities and Threats), the information collected in the descriptive phase regarding the 5Cs and respective trends is integrated and interpreted. The SWOT is used to identify relevant internal and external potentials. First, one detects market opportunities and threats resulting from market trends to then analyze whether and how those can be realized or avoided by making use of the company's strengths and overcoming its weaknesses.

For instance, the trend to substitute immunodiagnostics through molecular diagnostics for some oncological tests is an opportunity for IVD companies that have the strength to quickly provide those molecular tests. On the other hand, it is a threat to those who do not have the required resources or have entered a crowded market too late. Strengths that

have no value for realizing market opportunities and avoiding threats are of minor relevance. The same is true for weaknesses that are not related to the actual market situation and future trends.

## Step 2: Defining the fields of growth

**Growth dimensions:** The results of the SWOT analysis should help determine which are the go and no-go areas for future growth. These areas provide the boundaries within which the company defines relevant dimensions for growth, before it decides whether and how to expand on these dimensions. For instance, based on previous experiences and success with opening new subsidiaries in other countries, a company might opt for geographical expansion, thereby identifying a go area. The same company might be able to develop molecular tests; however it fears the high competitive pressure, thereby identifying a no-go area. There are four basic growth dimensions:

- **Market Segments:** An IVD company only serving retail and hospital laboratories (ie private laboratories with all types of customers) might expand by also addressing contract research organizations, pharma company labs and academic research labs. This could also imply that the company has to make use of new distribution channels in order to reach the targeted customers. Research labs, for instance, might prefer to order their products online rather than being contacted by sales representatives.
- **Workflow:** For instance, a producer for manual immunodiagnostic platforms could expand by automating its systems. A producer of automated systems could start to provide further services like regular software updates for their platforms, which would ensure revenue streams in addition to reagents with one customer after a platform is placed.
- **Product:** The product portfolio can be expanded, for instance, by adding testing technologies (eg molecular diagnostics, multiplex testing) or new tests (eg by entering other indication fields).
- **Geographic:** An established but nationally active company might also decide to enter new geographical regions that match their existing portfolio. For instance, a company selling automated tests for hospital infections in Europe could expand to China, where automation of many hospital laboratories has just started.

## C. Normative phase: Building the strategy house and drawing the implementation map

The final strategy is developed based on the previously defined growth dimensions. It specifies company goals,

action guiding principles as well as internal requirements. In order to be motivating, the strategy needs to be ambitious but also feasible. Furthermore, it should be precise so that action steps can be decided on and executed and the strategy should be easily understood to get the support of the company's stake- and shareholders.



**Michael Marquardt:**

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action plans - but patience pays off

## Step 1: Building the strategy house

"Building" the strategy house helps to formalize the strategy and to clarify the measures required for implementation. The strategy house depicts a temple with the following elements and contents:

- **Roof:** Standing on top of all other elements, the roof shows the vision of the company's future situation and strategic goals. This vision simplifies what the company aims to achieve and stands for in a given time (3-7 years). A vision should be formulated as a simple statement comparable to a slogan (eg "The leading rapid care molecular diagnostics company in 2025"). The roof should also include objective goals (eg financials and market shares, like \$200m sales in year 2025 and 5% of all testing systems in the market) detailing the vision and facilitation to control and steer the goal-directed progress.
- **Pillars:** Holding the roof and thus the vision, each of the pillars stands for a separate guiding principle for strategy implementation as previously defined with respect to the growth dimensions (eg geographical expansion and employee skill excellence). For each guiding principle the required actions are also listed (eg "expanding to Russia," "sales force training").
- **Basement:** Providing a stable ground and holding the pillars, the basement shows the company's internal requirements that enable it to follow the guiding principles, that is, supportive measures. Such supportive measures often relate to functional and organizational structures (eg up-to-date IT system, research and development optimization).

## Step 2: Defining the transformation map

After the strategy is conceptualized, a timeline plan for the implementation should be created to give guidance for enacting the strategy. To that end, we recommend drawing a transformation map that details the actions to be performed for the implementation of the strategy, the time required to perform these actions and the organizational functions responsible.

The transformation map gives an overview of the actions and measures every division has to take in order to realize the strategy. It also specifies the timelines and central milestones for implementation. The transformation map spans between two dimensions: the timeline for the strategy implementation and the associated sales volume estimates. The space between these dimensions is separated into fields, each corresponding to an organizational function (eg research & development, marketing & sales, human resources). It is in these fields that the separate actions to implement the strategy are located (eg "sales force training" in the case of the human resources division).

Despite being the last step in formulating a new strategy, the implementation map is, of course, not the final step of leading a new strategy to success. Action plans are there-

fore required, detailing the separate actions subsumed under the guiding principles. Also, responsibilities for the enactment of those action plans have to be assigned (eg head of business development oversees the build-up of a new business unit, head of research & development guides the market screening for new tests to be licensed) and key performance indicators have to be defined that allow monitoring the progress of enactment through regular audits.

## Bumpy ride but patience pays off

In most cases, the road of implementation is bumpy, in that unexpected hurdles will be faced that can force minor adjustments to action plans and sometimes even to the strategy necessary in order to overcome them. However, patience with respect to goals and persistence with respect to the vision help companies to cope with such setbacks and, in the end, to realize the strategy.

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