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ADVERTISING, DISTRIBUTION, & SALES

Cracking the Consumer Market

Retail channels and direct-to-consumer marketing offer a tempting target for some medtech manufacturers, but knowing the rules of the game is critical.

Debra Kurtz

Manufacturers and distributors in medical technology are increasingly looking at direct-to-consumer (DTC) channels for selling medical devices. A visit to the local retail pharmacy or chain store shows a variety of medical products for sale to consumers, including monitors, over-the-counter medications, nutritional supplements, thermometers, diabetes products, wound-care products, diagnostic tests, and more.

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Pharmaceutical companies have been the visible leaders in marketing products directly to the consumer, especially since FDA's late-1997 decision to make it easier to tailor drug advertisements for consumer audiences. Prime-time television and the print media are filled with ads for cholesterol-lowering products and medications to treat impotence, allergies, depression, and so on. It's no surprise that the medical device industry is following the pharmaceutical companies in looking at DTC channels.

Adopting a consumer-direct marketing strategy is not without pitfalls. Within the past year, for instance, highly publicized problems with well-known and heavily advertised arthritis medications have brought about regulatory scrutiny and public skepticism concerning drug safety. Nevertheless, it's likely that both pharmaceutical and medical device companies will continue to expand their use of consumer-direct strategies, because such an approach stimulates sales to a public that grows increasingly interested in taking a more active role in managing personal health.

This article considers how to determine whether a medical device has the potential for retail success, discusses product launch and how to work with retailers, and addresses ways to overcome common hurdles in selling directly to consumers through retail channels.

Researching the Marketplace

Before embarking on the path to retail sales, medtech companies should fully understand the consumer market and how their product might fit into it.

Differentiation. If the product category already exists on retail shelves, then the new product should be differentiated from existing competition. A me-too product is unlikely to unseat established brands already selling well. However, if the me-too product has a price advantage, there is an opportunity to displace an established product. Increasingly, private labeling for the retail store is an available option.

Successful companies seek to differentiate their products by giving them features that are desired by consumers. Also, they make sure that consumers are willing to pay any resulting difference in price. In retail sales, conducting research among potential consumers of a product is necessary for understanding the marketplace and ensuring success.

The Duracell EasyTab hearing aid battery hit a home run with consumers because the development team used marketing research to learn how to differentiate the product. Duracell (Bethel, CT) asked its design team, Product Ventures Ltd. (Fairfield, CT), to improve on the conventional hearing aid battery, which had always been difficult for users to insert into their devices. Often afflicted with decreased dexterity and diminished vision, consumers had problems taking the small batteries out of the packaging and properly orienting them in the hearing aid.



The Duracell EasyTab hearing aid battery was developed using ethnographic consumer research methods, making the product a retail best-seller. Photo courtesy Product Ventures. (click to enlarge)

Peter Clarke, president and founder of Product Ventures, initiated ethnographic consumer research which involved observing consumers interacting with conventional batteries. Clarke says that the researchers saw consumers drop

batteries on the floor and lose them in the shag carpeting. They watched them having trouble orienting the plus and minus sides of the battery in the hearing aid properly.

Clarke's team subsequently designed a new Duracell battery featuring a tab handle that helps the user remove the battery from the packaging and place it in the hearing aid. Consumer response to the EasyTab helped position Duracell as a leader in the hearing aid category. Clarke calls his process consumer-driven innovation. He advises, "If you're designing for consumers, you should talk to them, their doctors, and their retailers—do a 360-degree review of all the parties involved to lay the foundation of learning."

Clarke maintains that his firm's ethnographic research had value beyond its utility for product and packaging design. The Duracell sales team used videos of consumer observations to convince store buyers of the need to stock the EasyTab battery.

New Product Category. If a medical device company seeks to market a new product that is not in an established retail category, its need to conduct market research is even greater. The company essentially will be defining a product category and thus will have to convince channel partners—such as pharmacies and chain stores—to carry the product. Key items to research are the following:

- The size of the potential market.
- Remedies currently used to treat the condition addressed by the new product.
- Places where consumers would likely seek such a product.
- Prices the market would bear.
- Sources of influence on consumer product purchasing decisions (such as their doctors).

In most cases, this primary market research must be undertaken by the company, especially if the product category is completely original. Some secondary market research is available, however, on common afflictions such as diabetes, asthma, hypertension, and others. If the product falls under the umbrella of treatment of large-scale diseases, it is advisable to check with major medical market research companies like the ones named in the sidebar to see whether secondary research results are available for the product area.

Although purchasing such market research can be expensive, it is less costly than conducting one's own research study.

The HeartStart home defibrillator created by Philips Medical Systems (Seattle) was the first defibrillator developed for use at home. According to Brian Packard, business director, the company was convinced there was an unmet market need for home defibrillators, because consumers were requesting the devices after seeing them in fire departments, public health, and commercial use. But it was something of a leap of faith until Philips conducted market research and partnered with the online retail pharmacy CVS.com to develop the product for retail success.



The HeartStart defibrillator by Philips Medical Systems (Seattle) was the first such product developed specifically for home use. Photo courtesy Philips Medical Systems. (click to enlarge)

Says Packard: "For companies that take such risks in introducing new products to retail, the rewards are plenty, because they have first-mover advantage, which helps to shape the marketplace." Today, the Philips product is the leading defibrillator for home use.

Many companies recognize also that retail stores are a good source of information on consumer purchasing behavior. Seeking appointments with the category buyer for the product line is a good way to initiate dialogue with a potential channel partner. Buyers are more likely to accept appointments to discuss a product concept if the manufacturer is prepared to show product drawings or prototypes, and perhaps mock-ups of the packaging. While retail buyers will not reveal information about specific competitors in a product category, they generally will provide solid information about their experience with the category and share informed opinions about product features, pricing, and market positioning.

Clearance and Reimbursement

Medical device companies are used to working with FDA to secure marketing clearance for their products. For products to be sold retail, the same premarket approval process and labeling requirements apply. However, since the device user in those cases is a consumer, FDA has additional concerns regarding safe use and ease of use among the lay public. In addition to the required utility research, manufacturers need to provide FDA with evidence that their device can be safely

and easily used by consumers.

Consumer-level advertising also is subject to FDA labeling requirements.¹ The explosion of DTC pharmaceutical advertising led FDA to develop a guidance document for medical device broadcast advertising, which is available.²

FDA has written guidance documents for common retail medical products. However, for products creating new categories, manufacturers will be working with FDA to define each step in the clearance process.

Packard recommends that company regulatory personnel cooperate closely with FDA. The HeartStart team first worked with the agency to receive clearance with a prescription. Then it undertook to get over-the-counter clearance. "Philips needed to prove that a naive user could use the device safely and effectively right out of the box," Packard says. Philips staff had to develop packaging, labeling, and an instructive video to help consumers understand the product.

Medical products that are sold through retail channels typically are ineligible for reimbursement. For a product to be covered and paid for, it must be classified into a benefit category. It cannot be a convenience or cosmetic item, and it must be approved for coverage by the payer. Guidelines for coverage of durable medical equipment are published by the Centers for Medicare and Medicaid Services.³

The Advantage breast prosthesis was developed by ContourMed Inc. (Little Rock, AR). According to company president Mimi San Pedro, insurance reimbursement was critical to ContourMed's success in selling to both distributors of durable medical equipment and lingerie boutiques.



The Advantage breast prosthesis by ContourMed (Little Rock, AR) reaches consumers through multiple retail channels. Photo courtesy ContourMed. (click to enlarge)

Developing a Channel Strategy

The medtech company pursuing a DTC strategy must get its product into the hands of the consumer by selecting one or more sales channels. The available choices are either to sell directly to consumers or to use channel partners. San Pedro recommends following a channel strategy that reflects "where

consumers shop and where they prefer to seek products."

Companies that pursue direct sales to consumers typically set up e-commerce Web sites, since most lack their own brick-and-mortar stores. Because Internet consumers are easily persuaded to report their experiences via the Web, online sales efforts can produce enhanced consumer feedback for the company. Another reason for selling direct is enhanced margins. Companies typically price a retail product with a double margin—the margin the company requires plus margin for potential channel partners that may later sell the product. Until the product begins to be sold through those retail partners, the manufacturer takes both margins through online sales.

Companies commonly choose to use retail channel partners because those stores have expertise in reaching consumers. When the product category is already established in mass merchandising, the manufacturer is likely to start distribution with the big chains. For product innovations, there is often a progression of retailers. The manufacturer may begin with small-scale distribution through small specialty stores, independent retailers and pharmacies, catalogs, and online e-tailers, where the product positioning and associated messages are fine-tuned. "Specialty retailers want to be the first with a novel device, and they expect rich margins to cover the marketing they provide," says Packard. Distribution then is typically broadened to include retail chains, once the product has become a proven seller.

Kaz Inc. (New York City) provides an example. Kaz wanted to capitalize on the Vicks brand equity by entering the juvenile thermometer market, in which several manufacturers were already competing. The Vicks name is licensed to Kaz from Procter & Gamble (Cincinnati) for use in the area of home health products.



The Vicks baby thermometer by Kaz Inc. (New York City) capitalizes on a popular brand name to attract consumers through mass retail outlets. Photo courtesy Kaz. (click to enlarge)

Kaz differentiated the Vicks baby thermometer by designing for safer and easier temperature measurement. Jody Smith, the company's senior product manager, emphasizes the importance of partnership between the medtech manufacturer and the retailer, especially important to Kaz, since it went directly to mass merchants with its new design. She advises conducting

marketing research with the retail buyers, and listening to them, "because they know their customers well. Take their feedback and incorporate it into the selling proposition."

What Retailers Look For

The retailer's goal is generally to maximize its total margins per square foot of the store (with similar calculations made for the catalog or Web page). A retailer makes stocking decisions based on whether a new product, relative to the products already carried by the store, would help achieve greater profits. Gross margin for a product is defined as in-store retail selling price minus the cost charged by the manufacturer. The retailer often will look at net margin as well, a figure reached by subtracting the cost of consumer returns and defective units. Margins vary among retailers. In general, specialty retailers look for margins of at least 50% (often called keystone margins), whereas chain retailers expect 40% or more.

Retailers will ask the medtech company to provide a sales forecast to help them determine if it makes sense to stock the product. Obviously, when the product has not been sold in a chain retail environment before, it is difficult to forecast sales. If the manufacturer has sold the product previously through e-tailers or in specialty retail, these sales data can serve as a starting point for projecting revenues. Companies often aggregate sales data from several e-tailers or specialty retailers when providing this information to retail chains, in order to maintain confidentiality for the individual entities.

Sometimes, to quantify a sales forecast requires a test. By offering the product for sale in a limited environment, perhaps in a few stores or through its online store, the retailer can achieve the confidence it needs to stock the product across all stores.

The initial order from a retail chain can be very large, especially if a national retailer is ramping up inventory for a couple of thousand stores. The manufacturer should plan in advance for such initial orders, so that it will be able to obtain ample raw materials, build and package the product, and stage the fulfillment process. Subsequent orders by the retailer will not be as large as the rollout order.

The ability to negotiate terms with the retail partner can be inversely proportional to the size of the retailer. It is not

unusual for national chains to ask the manufacturer to sign a prepared vendor contract in which very little is negotiable.

Creating Retail Packaging

Having the right product packaging and messaging is critical for retail success. However, packaging with a retail look and feel is often a foreign concept for medical product manufacturers. Successful retail packaging helps drive consumer sales and differentiates one product from the competition. This is very different from the role of typical medical device packaging, which mainly serves to protect the product, and sometimes explains its clinical use.

Consumer marketing research is an important part of the package development process. Checking the reaction of consumers during the various stages of development ensures that the message and packaging finally selected are those that will resonate with consumers most effectively. Oftentimes, consumers are asked to help identify the best type of physical package—for instance, a box or a clear plastic package—and to express their preference among alternative versions of written copy. They might also be asked to share their preferences among existing competitive products in the category. Companies conduct this research in order to ensure that their product doesn't get lost in the thicket of choices presented in the competitive retail environment.

Product Ventures, which designed the Duracell EasyTab hearing aid battery and its packaging, conducted consumer research and found that packaging needed to be more than just a display mechanism in order to distinctively brand the product. "The packaging needed to be a dispensing system," according to Clarke. The product and packaging subsequently created by his firm helped position Duracell as a leader in the hearing aid category. Notes Natasha Lopoukhine, marketing director at Product Ventures: "One person might see the advertising for a product, but every purchaser sees the packaging."

Retail partners can provide informed input on packaging choices. They should be consulted early and throughout the process. Retail buyers can tell the manufacturer whether the product needs to hang on a peg or stand on a shelf. They can also relay experience regarding which package types are subject to damage or tampering. Sometimes, they will share stories of success and failure in package design that involve

other companies.

Retail Market Launch

The retailer looks to the manufacturer to create consumer demand that will generate product sell-through (turnover). Consumer product companies typically create demand for their offerings at launch and through periodic promotions after launch. Oftentimes, they advertise in consumer media, develop in-store promotions with the retailers, such as coupons or a free gift with purchase, or develop Web-based or direct-mail campaigns. Medtech companies, too, should consider some of these traditional strategies, especially at launch, to ensure that their products sell.

Retailers typically expect some sort of in-store promotional allowances to be funded by the manufacturer. They may expect a percentage of sales to be given back in the form of a co-op advertising fund. Sometimes they have in-store promotions, store advertising circulars, or other vehicles in which companies can pay to have their products featured. Smith from Kaz, the baby thermometer marketer, says that Kaz uses co-op funds to increase awareness among consumers in the retail store. The company conducts some consumer programs as well, such as producing a leaflet packaged with the Vicks humidifier that cross-sells the thermometer.

It's not uncommon for retailers to expect the new manufacturer to buy out the inventory of an existing product in order to open up shelf space. Companies sometimes are asked to fund store fixtures. The manufacturer should discuss with the buyer in advance the possibility of such allowances in order to get a feel for what is expected.

Many companies consider such promotional allowances a cost of doing business, and they plan for such spending when they price their products. However, it is important to keep in mind the need for price parity across a variety of sales channels.

Medical device companies can drive sell-through additionally by leveraging their healthcare industry sales channels. Some companies use their sales force and marketing communications materials to educate healthcare professionals about the products they are offering at retail. Healthcare professionals often direct consumers to outlets where medical products can be easily purchased. Even when the healthcare

professionals themselves offer products directly to consumers, it still can be worthwhile to educate them about other sources of the products. The physician sometimes runs out of inventory, after all. Or, he or she may feel strongly about giving patients several purchase choices.

Ferraris Respiratory Inc. (Louisville, CO) makes the PiKo-1 and FEV-1 peak-flow pulmonary monitors for home use by asthma and chronic obstructive pulmonary disease patients. According to Rich Rosenthal, director of sales and marketing for Ferraris, "the company doesn't have much of a consumer-direct ad budget. However, we count on the direct sales force that calls on hospitals and clinics, our distributor and dealer network that services doctors' offices, and our manufacturer's reps who call upon distributors of durable medical equipment (DME)." Also, Rosenthal uses alliances with pharmaceutical companies to drive sales of the PiKo-1. He says that the drug companies are partnering with Ferraris because its device proves that their asthma drugs work. The drugmakers raise awareness of the pulmonary monitor among doctors who then recommend it to patients.



Physician recommendations boost consumer sales of the PiKo-1 peak-flow pulmonary monitor by Ferraris Respiratory Inc. (Louisville, CO). Photo courtesy Ferraris Respiratory. (click to enlarge)

Marketing to healthcare professionals costs a fraction of the price of DTC advertising. Plus, when a healthcare professional directs a consumer to search for a product in retail, that expert and authority figure conveys a subtle endorsement of the product.

The blood glucose monitor companies have long appreciated the impact of their integrated three-pronged sales approach consisting of medical reps, clinical specialists, and retail reps. Among them it is not uncommon to see sales compensation plans that reward all three sales forces when a patient is directed by the medical community to purchase a blood glucose monitor in the chain drugstore.

Conclusion

Successful companies agree that the benefits realized by developing a retail sales channel exceed the pain. But the companies surveyed for this article warned against taking

retail lightly.

Philips' Packard notes that the retail option, whatever it may look like, is not a simple means to expand a business. The DTC market is there to be tapped, he agrees, but only if it's consistent with the company's vision and if the new product fits a market need. Manufacturers have to provide a product that is unique as well as needed. Finally, Packard emphasizes, they should align and fully prepare their organization for retail before market entry.

Developing the retail sales channel requires a learning curve, and it often induces growing pains in the organization. But while marketing directly to consumers takes substantial effort and company commitment, it can be a source of significant revenues and profits. Additionally, it provides another leg for the company to stand on, mitigating the risk from dependence solely on the healthcare supply channel.

Retail exposure brings increased brand recognition to a company, an advantage that resonates across all sales channels. By enhancing its retail brand equity, the company can expect to see its product names receiving greater attention in traditional medical sales channels also. That is because everyone, ultimately, is a consumer, including healthcare professionals.

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Debra Kurtz (Vernon Hills, IL) is a consultant specializing in sales and marketing solutions for medical companies selling in healthcare-provider and retail channels.

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