

# Inside China: Know thyself; know thy distributor

Michael Alper of Neuvomedica gives practical tips on choosing the right distributor in China



One of the most important factors in being successful in the medical device market in China is how well you choose your distribution partner(s). For

small and medium-sized companies relying on a national distributor to also develop the market for their products, this decision is critical.

China's distribution is very regional, fragmented and localized. In Shanghai alone there are almost 12,000 companies licensed to distribute medical device companies. Thus, choosing distributors is a very challenging process.

## Relationships rule

Typically, the main asset that distributors bring to the table is their relationship with the end customers, the physicians and hospitals. These relationships take a significant amount of time to develop. As most distributors do not have a professional sales & marketing or even medical background, it would be very difficult for them to sell if they did not have these relationships in place.

Distributors in China will do whatever it takes to gain advantage and close the deal, so it is very important to test the claims made by the distributors you are evaluating; especially the strength of their end customer relationships.

One of the best ways of doing this is by having the distributors arrange appointments for you to meet with the end customers. The first clue to the strength of the relationship is how easy it is for the distributor to set the meeting. If the distributor has difficulty getting a meeting or the end customer is very inflexible on time (only gives one option), it's a sign the distributor/end-customer relationship is not very

strong. The second set of clues is from evaluating the meeting itself. Signs of a strong relationship would be if the end-customer gives a significant amount of his/her time and it is clear there is good communication between the distributor and the end customer. Watching also how the end customer and distributor interact is important. Do they seem like friends or does the meeting seem stiffly formal? Are there signs of strong trust? If the distributor is claiming significant coverage, that coverage needs to be tested as well.

Just because a distributor has had past positive performances or a positive reputation in the past does not mean you should forgo this important step. Sometimes people within the distribution company change and with it the relationships disappear. For instance, I know of some distributors that have done very well in the past but after losing one or more key people, gradually lost their position in the market. Yet, they are still sometimes considered by foreign manufacturers who only know of their past reputations.

## Go national

For small and medium-sized companies, unless they have a local team to manage their distributors, typically they should choose at most one partner to act as their national distributor for each distinct product line. There are many reasons for this but the main ones are to maintain pricing integrity and to ensure an incentive exists to invest in national marketing activities. Even under normal circumstances when distributors have distinct exclusive regional distribution rights, there are often problems with distributors going outside their territories and undercutting other distributors. If this problem is not actively managed, pricing erosion is inevitable. This kind of problem is almost impossible to manage if you do not have people on the ground

in China. As for national marketing activities, only a national distributor would have incentive to invest since only they would get the full benefit of such investment.

However, in order for a national distributor to be successful with your product they need to offer something more than just end customer relationships. If they are responsible for getting your product registered, they need to have capabilities in this space. Does the distributor have sufficient technical capability to support your product? If a clinical trial is likely, what experience does this company have in running trials? How good are their relationships with the centers that will likely conduct the trial? Without capabilities and strong center relationships, it would be very difficult to ensure success. Many distributors will make claims and these can be tested as well.

Most importantly for being successful in China is the willingness to invest in and capability to conduct marketing and market development activities. Without this the best a distributor can do is to leverage its customer relationships to obtain a small market share with limited growth. This area can be evaluated by looking at the management team's backgrounds as well as its past successes. Does the management team have a professional background in this business? Have they succeeded in launching and continuing to grow a product in this market up until the present time? Getting these questions answered and verifying their accuracy will help you make the best decision to ensure the success of your product in China.

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