

GLOBAL HEALTH

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Phoenix equipment in use within a neonatal intensive care unit

Photo courtesy of Phoenix Medical Systems

PHOENIX MEDICAL SYSTEMS II: When Partner Sales Fall Short of Expectations

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V. SASHI KUMAR, FOUNDER

THE PROBLEM/SOLUTION SPACE

Each year, approximately 4 million infants die within one month of their birth, and 1 million die within their first day of life.¹ Most of these deaths (99 percent) occur in low- and middle-income countries.² Neonatal hypothermia is recognized as a key contributor to the morbidity and mortality risk of newborns.³ Hypothermia occurs when newborns do not have adequate body fat and metabolic rate to maintain viable body temperature. This problem is particularly common among premature babies.

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Incubators can prevent neonatal deaths from hypothermia, shorten hospital stays, and reduce the rate of neonatal complications that may lead to lifelong illness and disability. From 1950 to 1998, incubators with high concentration oxygen and other advances contributed to a 75 percent decline in infant mortality rates.⁴ However, these benefits were disproportionately realized in developed nations, particularly those in North America and Europe. Incubator use in the developing world remains limited. A major barrier to adoption is cost, with modern incubators developed for Western settings requiring an investment up to \$30,000 or more per unit. Hospitals in developing regions also frequently do not have the technical expertise and access to replacement parts needed to repair these complicated devices.

ABOUT PHOENIX MEDICAL SYSTEMS

In 1989, V. Sashi Kumar founded Phoenix Medical Systems Ltd. to manufacture, distribute, and service a low-cost incubator that he designed specifically to meet the patient care and maintenance needs of hospitals in India and other low-resource settings. His vision in starting the company was to make a wide range of appropriate, innovative, and

affordable solutions available for maternal and infant care.⁵

After developing its first incubator, Kumar expanded Phoenix's offerings to include other products such as a neonatal radiant warmer and a neonatal phototherapy unit. Despite the lack of legislation in India to monitor the quality of manufactured medical equipment, Kumar ensured that all of his devices were produced following international quality standards (e.g., ISO, Six Sigma). His belief was that low-resource environments should have access to world-class medical solutions at prices they could afford.⁶ Relatively quickly, Phoenix became the leading manufacturer of neonatal care equipment in India.



Photo courtesy of Phoenix Medical Systems

Newborn and infant care products being assembled in the factory

In the mid-2000s, the company attracted the attention of a major multinational with a healthcare and life sciences. This company had a presence in India's medical imaging and patient diagnostics/monitoring systems markets and was actively seeking to broaden its capabilities in the growing maternal/infant care segment. According to Kumar, when this particular organization entered an emerging market, "They want to be sure that they're there in all the segments in a particular vertical. They need to have all the products in their basket, and they want to have offerings for customers at all levels, including those at the bottom of the [socioeconomic] pyramid."⁷ Acquiring access to some of the technologies in the Phoenix portfolio would allow the company to rapidly strengthen the

range of products it made available to low-resource healthcare providers in India, as well as in China and other emerging markets. “They wanted to quickly move into the product segment, and that’s where Phoenix came in,” he noted.

When leaders from the multinational approached Kumar about a possible deal, he was enthusiastic. “I was very happy to become associated with such a wonderful company,” he said. The representatives suggested purchasing Phoenix, but Kumar preferred a licensing agreement that would give the company access to Phoenix’s technology. The organization was particularly interested in three of Phoenix’s products—two infant warmers and a phototherapy unit. As Kumar recalled, the multinational team predicted annual sales of \$10 million for this equipment within three years.

Ultimately, the two-year exclusive contract that Phoenix entered into with the company had two primary parts. First, the multinational would use its established distribution channels to sell all of the products in the Phoenix portfolio, under the Phoenix brand name, exclusively in the Indian market. Phoenix would continue to manufacture the products and the company would purchase the inventory to support Indian sales. Second, the new partner would modify the three products noted above to meet its own international requirements, and then manufacture, sell, and distribute them in markets outside India under the multinational’s brand name. “The idea was that they could go anywhere in the world and sell them,” Kumar said.

With the partner meant to be doing all the selling in Phoenix’s home market, Kumar envisioned Phoenix transitioning into primarily a design and manufacturing company. The organization would also continue to provide after-sales support to its customers in the Indian market.

ONE CHALLENGE: WHEN PARTNER SALES FALL SHORT OF EXPECTATIONS

The multinational intended to sell the infant warmers and phototherapy devices into maternity hospitals through the gynecologists who were the customers of its ultrasound

machines. “They thought it would be easy to get the products into maternity hospitals because they already had business there,” Kumar said. Unfortunately, these sales did not come as effortlessly as expected. “They could sell their ultrasound because their name was well-known in this space. But the company didn’t have the same reputation with incubators and phototherapy devices,” he explained. In addition, the partner’s sales representatives often had to interact with physicians besides the gynecologists. Since the reps were generally unfamiliar with how the new equipment worked, they were not able to effectively position it to these decision makers. “These aren’t products that can be sold just like that,” Kumar said. Physicians expected the sales reps to deeply understand the benefits of the product

relative to other alternatives in the market and answer their technical questions. With no special incentives in place to motivate the sales people to acquire the knowledge they would need to effectively engage in these situations, sales languished.

Meanwhile, Phoenix had made a sizable investment in expanding its manufacturing capacity to meet the multinational’s predicted demand. “They expected to move more

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units in a couple of months than we sold in a year,” Kumar recalled. As new production facilities and staff came online, sales remained flat. As a result, inventory started to pile up. “We were left with a large order which we had to service without any revenue.”

Phoenix started to feel the financial strain of its new arrangement, but the company’s hands were tied. “We had given the total distribution rights to the multinational, so there was no opportunity for us to sell our products into the market directly,” Kumar explained. Even if the contract had not prohibited direct sales, Phoenix no longer had its own sales representatives—they had all left the company when the partnership deal was signed. “It was a very difficult time,” he added.

THE SOLUTION: TAKING BACK THE BUSINESS

Kumar realized that in order for Phoenix to survive, the company would need to play a much more active role in helping stimulate sales—at least in the Indian market. First, he made the multinational aware that Phoenix could no longer afford to sit on the inventory it had amassed. In response, it agreed to purchase some of the equipment in advance. Second, Kumar mobilized his network of service technicians, who remained in the field

to maintain the installed base of Phoenix equipment in India. “We got them to begin pulling lots of leads, and we proactively brought them to our partner,” he said. These warm leads stimulated enough sales to enable Phoenix to get by. As Kumar put it, “We managed to stay alive.”

At the end of the two-year contract, the multinational approached Phoenix about extending the agreement, but Kumar was adamant about regaining control of Phoenix’s products. Kumar rehired several of his previous sales representatives and started to rebuild the sales team. In addition, Phoenix again tapped into its network of service technicians to let its customers know that it had re-established direct control of its product portfolio. “The customers were happy that we were back,” Kumar said. Gradually, Phoenix was able to ramp up its sales. The company expected to achieve record turnover of approximately \$18 million by late 2013.



Photo courtesy of Phoenix Medical Systems

Phoenix engineers testing equipment

Reflecting on the partnership, Kumar was generally positive. One key benefit to Phoenix had to do with product pricing. Prior to the deal, Phoenix had maintained extremely small profit margins that did not enable the company to grow and expand the business. “We always thought that our products had to be priced lower and lower,” he explained. However, the multinational engaged in market research and set its product pricing at the level that the target market could bear. Phoenix learned that its customers were willing and able to pay a bit more than the company originally expected for high-quality, reliable products. By making a small adjustment to its pricing model for the two infant warmers and the phototherapy devices, Phoenix was able to improve its margins enough to begin thinking about growth and expansion.

Kumar also believed that Phoenix had learned a lot from its interactions with the partner. “A small company or a start-up has a lot to learn from a major multinational organization. It has great systems in place to manage processes like design reviews and quality control. It’s very difficult to build these systems yourself and, if you’re exposed to what bigger companies are doing, it really helps you improve,” he said.

When asked if he would consider partnering with another multinational company again, Kumar was open. When the partner wanted to extend the original agreements, he noted, “I told them that maybe we could talk again in five years.” During this time, Kumar would be focused on acquiring more market experience and business insights that he could apply to any future partnership deals. ♦

NOTES

- 1 Lawn et al., “Neonatal Survival 1:4 Million Neonatal Deaths: When? Where? Why?” *The Lancet*, 2005; 365: 891-900, http://www.who.int/maternal_child_adolescent/documents/pdfs/lancet_neonatal_survival_paper1.pdf (September 4, 2012).
- 2 Ibid.
- 3 Luke C. Mullany, “Neonatal Hypothermia in Low-Resource Settings,” *Seminars in Perinatology*, December 2010, pp. 426-433, [http://www.seminperinat.com/article/S0146-0005\(10\)00107-2/abstract](http://www.seminperinat.com/article/S0146-0005(10)00107-2/abstract) (September 4, 2012).
- 4 S. Johnson, *Where Good Ideas Come From: The Natural History of Innovation*, Riverhead (New York) 2010.
- 5 “Mission and Values,” Phoenix Medical Systems, http://www.phoenixmedicalsyste.ms.com/index.php?option=com_jumi&fileid=13&Itemid=4 (August 6, 2012).
- 6 “Overview,” Phoenix Medical Systems, http://www.phoenixmedicalsyste.ms.com/index.php?option=com_jumi&fileid=4&Itemid=3 (August 6, 2012).
- 7 All quotations are from an interview with V. Sashi Kumar conducted by the authors unless otherwise cited.