

# A guide to partnering with healthcare product distributors

A case study of Kenya

November 2019

## **What are the key challenges to scale, and what questions should I be asking as I build a distribution strategy?**

- Challenges to scale
- Ready Set Launch framework and framework for distribution strategy

## **Should I partner with a local distributor and what are the implications?**

### **For what types of distributors am I a good fit?**

- Distributor types
- Assessing distributor fit

### **What is expected of me to effectively support a distributor?**

- Distributor process overview
- Assessing distributor expectations

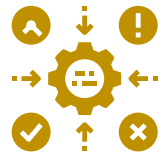
### **Appendix**

- Report context and methodology

**What are the key challenges to scale, and what questions should I be asking as I build a distribution strategy?**

# Challenges to scale: Medical product innovators face challenges scaling their innovations, even more so in lower-and middle-income markets

## Medical product innovators' challenges scaling in new countries



**Need misalignment:** Innovators often may not understand their buyers' needs and context, esp<sup>1</sup> when designing for a location they are not in



**Minimal in-country capacity:** Innovators usually do not have the capacity to sell, distribute and service their products in new markets



**Registration ambiguity:** Innovators may not know nor have the ability to navigate sometimes-ambiguous registration processes

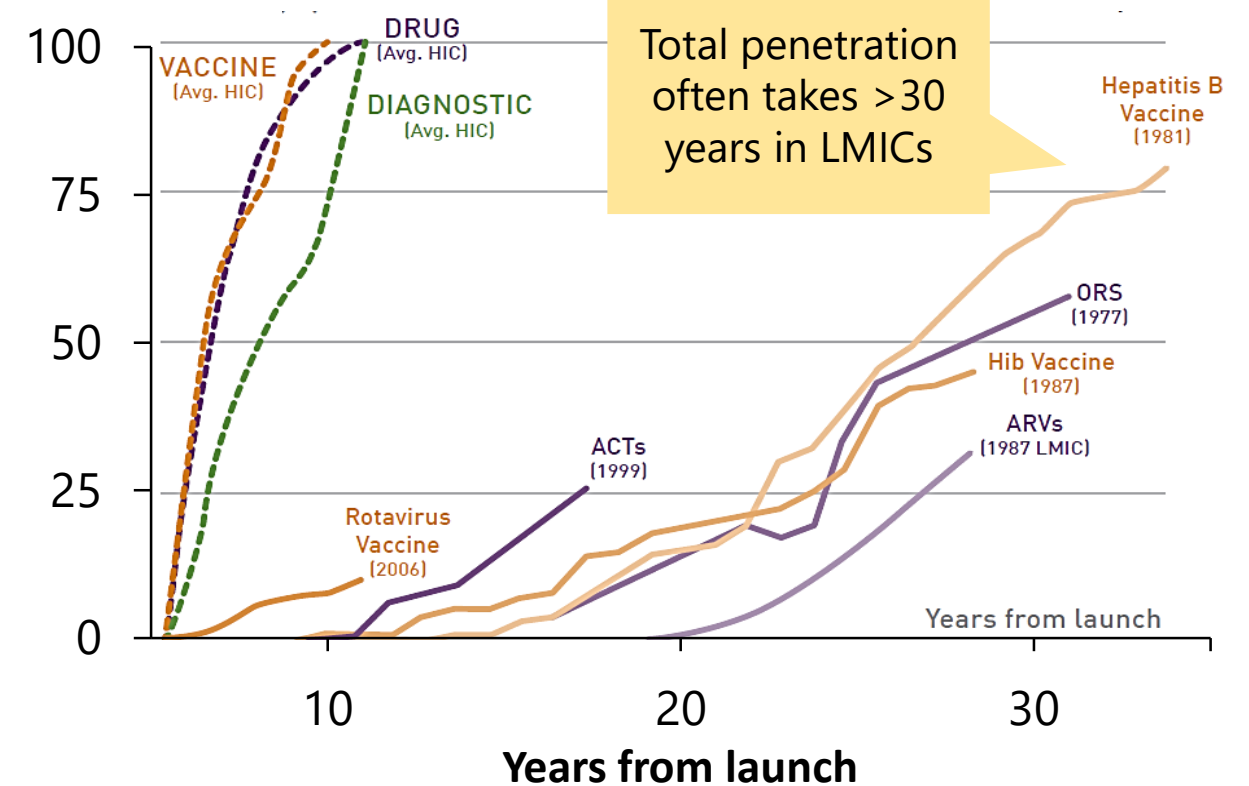


**Minimal recognition:** Innovators often may not have the name recognition nor relationships to get buy-in from key opinion leaders in new countries

## Scale takes even longer in global health

### Years it takes to scale up global health innovations<sup>2</sup>

% market penetration



**USAID created the [Ready, Set, Launch](#) framework to help global health innovators navigate challenges as they scale to new markets**

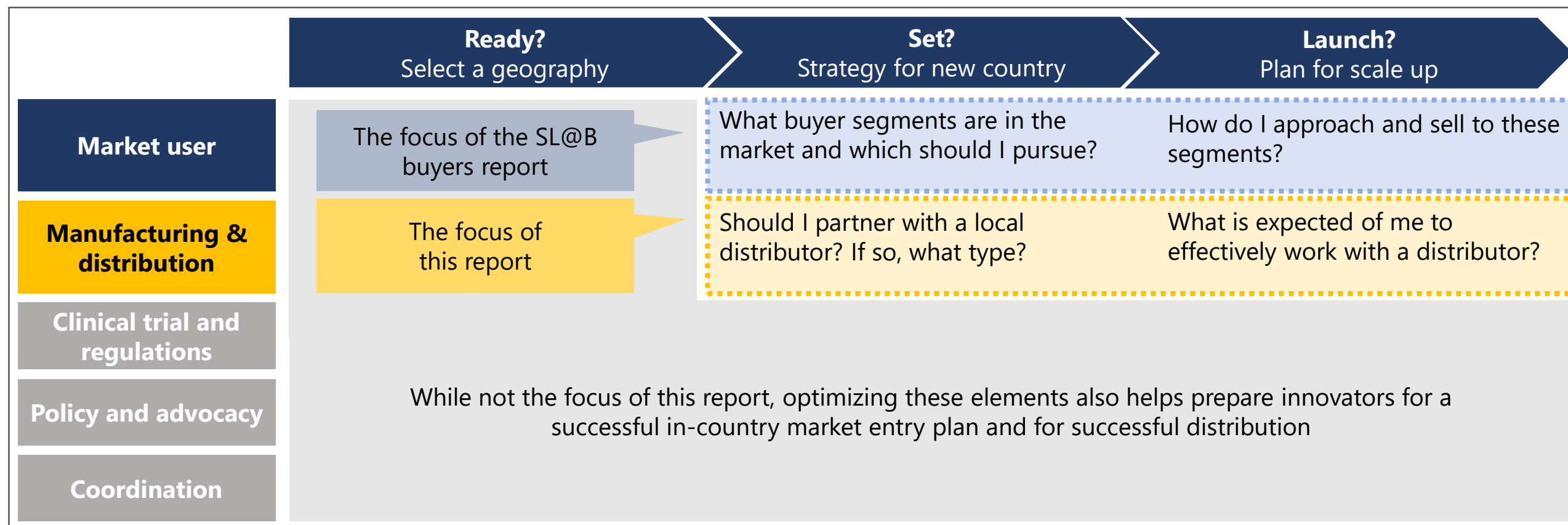
Notes: (1) Esp. stands for especially (2) ACT: Artemisinin-based combination therapy; Hib: Haemophilus influenza type b; LMIC: Lower- and middle-income countries; ARV: Antiretroviral; HIC: High-income countries, ORS: Oral rehydration solution  
Source: (1) READY, SET, LAUNCH – A Country-Level Launch Planning Guide for Global Health Innovations [link](#), (2) OCA analysis

# Ready, Set, Launch: Distribution, one of the key challenges to scale addressed in USAID's framework, is the focus of this report



**USAID**

**USAID's Ready, Set, Launch framework** brings together guidance and tools to support country prioritization and the development of a comprehensive scale-up strategy and launch plan



**This report will focus on innovators' distribution strategy and plan, covering the "Set" and "Launch" portion of this framework**

# Framework for distribution strategy: Innovators should consider whether to use a distributor, what type, and how to support them

## Framework to guide innovators as they build an in-country distribution strategy/ plan



### 1 Should I partner with a local distributor and what are the implications?

#### Sub questions:

- What are the pros and cons of using a local distribution partner as opposed to handling distribution and sales in-house?

### 2 If yes, for what types of distributors am I a good fit?

#### Sub questions:

- What are the innovator's intentions
- What types of distributors are in the market and do they fit the innovator's intentions?

### 3 Once identified, what is expected of me to effectively support a distributor?

#### Sub questions:

- What is expected of an innovator throughout the distribution and sales process?
- How does this differ by distributor type?

**This report focuses on Kenya** because it has been highly targeted for global health innovators.<sup>1</sup> While the content is Kenya-specific, innovators can use insights and frameworks from this report as a baseline when entering other markets, then verify if similar structures and dynamics hold true.

Note: (1) Among SL@B innovators, Kenya is the most popular destination for innovator market entry (~20% of innovations funded by SL@B are situated in Kenya)

# Should I partner with a local distributor and what are the implications?

# Distribution strategy: Innovators can partner with local distributor or handle functions in-house; both require supporting business functions

When entering a new market, innovators can choose to partner with a local distributor or handle in-house

	Local distribution partner		In-house logistics, sales, after-sales support
Model	<p><b>Distributor:</b> handles sales, logistics, &amp; after-sales support</p> <p><b>Innovator:</b> leads marketing, trains distributor, leads in-country product regulation approvals</p>	↕	<p><b>Innovator:</b> handles sales, marketing, logistics, after-sales support, and in-country product regulation approvals</p>
Potential advantages	<ul style="list-style-type: none"> <li>Established sales channels and relationships</li> <li>Established logistics support</li> <li>May not need in-country office/ team</li> <li>May not need to establish an in-country legal entity</li> </ul>	↕	<ul style="list-style-type: none"> <li>Full control of product messaging</li> <li>Better information on customers &amp; use-cases</li> <li>Captures full sales margins (albeit larger operating costs)</li> <li>More control of service quality/ customer training control</li> </ul>

**Common misperception:** Innovators do not have to build a business if they have local distribution partners

Many innovators assume if they partner with local distributors then they can focus solely on product development. This is not the case. A central office to manage marketing, manufacturing, accounts, etc. is needed to support distributors.



For what types of distributors am I a good fit?

# Distributor types: Kenya market served by 2 large distributors, KEMSA and MEDS, along other market-led and donor-aligned distributors

## KEMSA



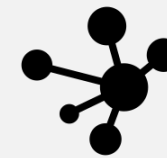
**Kenya Medical Supplies Authority (KEMSA):**  
A state-owned-enterprise mandated to supply pharmaceuticals and medical products to public healthcare facilities

## MEDS



**Mission for Essential Drugs and Supplies (MEDS):**  
A not-for-profit distributor that distributes pharmaceuticals and medical products to faith-based organizations (FBOs) and non-profit healthcare facilities

## Private distributors



**Market-led distributors:** Typically private companies that distribute a wide range of healthcare products to all types of healthcare facilities. They can range in size, clinical specialties (e.g. maternal/newborn), or clinical functions (e.g. laboratory, operating theater)



**Donor-aligned distributors:** companies or NGOs that distribute medical products as a means to their main goal of research and program implementation on behalf of the global health donor community

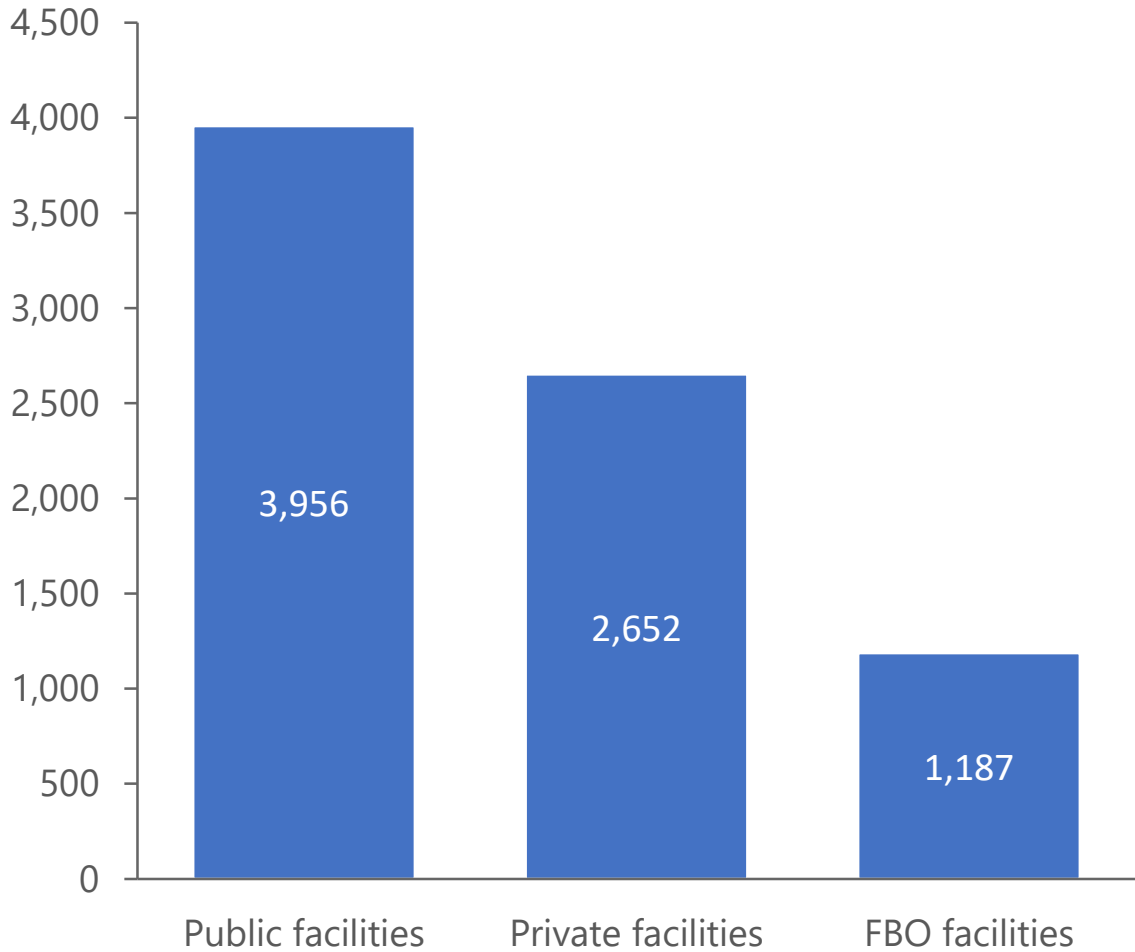
Each distributor type serves different market segments in terms of healthcare facility buyers

# Market segments served: KEMSA dominates largest segment (public facilities), while private distributors dominate the second (private)

## Public facilities is largest buyer segment while FBO is smallest

Kenyan healthcare facilities by governance type<sup>1</sup>

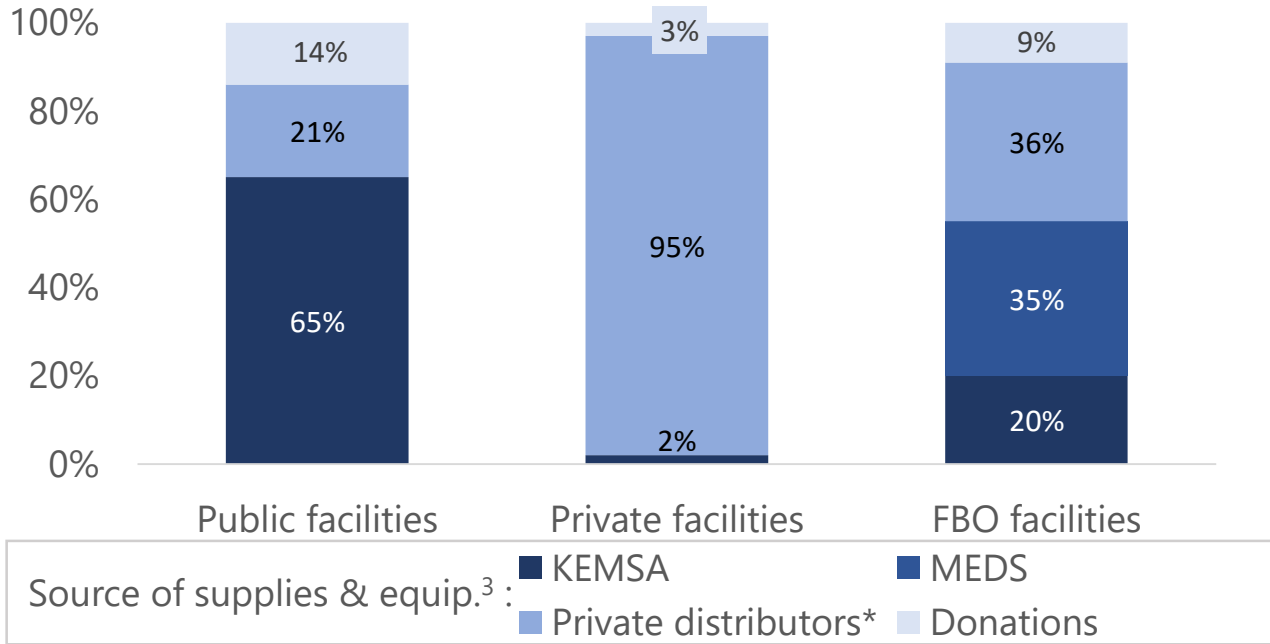
Number of facilities



## Different distributors dominate different buyer segments

Kenyan healthcare facilities by source of supplies & equipment<sup>2</sup>

% based on volume of medical supplies

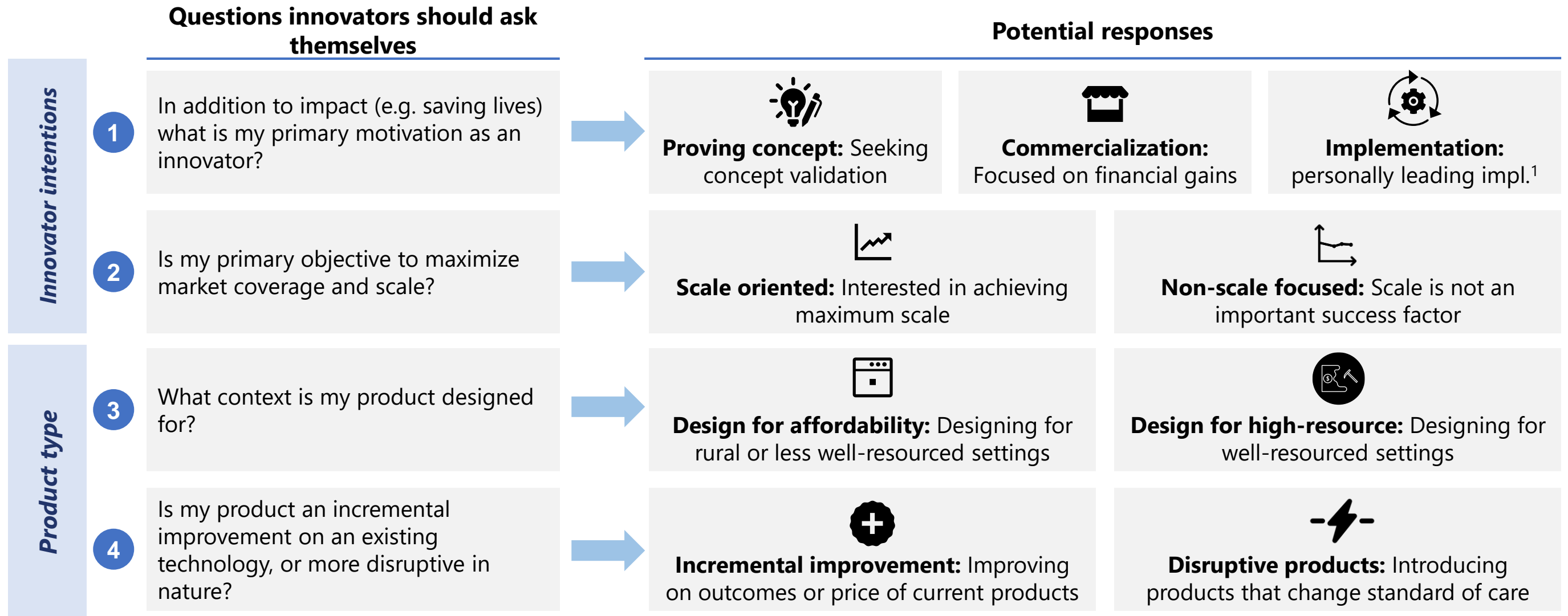


- KEMSA supplies over half of the supplies to public facilities, which is the largest by facility numbers & 20% to FBOs
- MEDS, supplies 35% of FBOs. Consultations revealed that they also sell to government facilities
- Private distributors sell to all types of facilities, but dominate distribution to private facilities, the second biggest segment

Notes: (1) This includes the number of facilities in Kenya in 2014 (2) According to a study that polled public, FBO (Faith-Based Organizations) and private buyers to understand the origin of their medical supplies. The sample size in the study was 596 healthcare facilities. (3) Equip. stands for equipment

Sources: (1) Kariuki, Joan et al, *Local Supply Chains for Medicines and Medical Supplies in Kenya: Understanding the Challenges*, (Kenya, African Centre for Technology Studies, 2014), [link](#)






# Assessing distributor fit: Innovators should articulate their intentions for distribution and product type before assessing distributor fit



**As innovators consider the distributor types described in detail in the following pages, they should keep in mind their answers to these questions**

Note: (1) Impl. Is short for implementation and is in reference to innovators who want to be more hands-on taking their product to market

# KEMSA: Supplies at a large scale, but has many barriers to onboarding new products

<p><b>Overview</b></p>	<ul style="list-style-type: none"> <li>• KEMSA is the largest procuring entity of medical supplies in Kenya, aggregating public facility purchasing requirements</li> <li>• KEMSA aligns its purchasing to the Kenyan Essential Medical Supplies List (KEMSL) created by the Ministry of Health, but can supply other items as well</li> </ul>	<p><b>Client examples</b></p> <div style="text-align: center;">   <b>Kenyatta National Hospital</b> </div> <div style="text-align: center;">   <b>Moi Teaching and Referral Hospital</b> </div> <div style="text-align: center;">   <b>Mbagathi County Hospital</b> </div>
<p><b>Key considerations for new innovations</b></p>	<ul style="list-style-type: none"> <li>• Are innovations supported by clinical evidence?</li> <li>• Are innovations used by other reputable bodies (e.g. WHO, UNICAF) and KOLs?</li> <li>• Is standard of care included in gov. protocols (e.g. Basic Pediatric Protocols)?</li> <li>• Are devices explicitly requested by KOL's and end users from public facilities ?</li> </ul>	
<p><b>Potential benefits of partnership</b></p>	<ul style="list-style-type: none"> <li>        • <i>Scale oriented:</i> KEMSA has the largest public health system network which would enable a wide reach for innovations     </li> <li>        • <i>Design for affordability:</i> KEMSA's wide coverage extends to smaller health facilities in low-resource settings     </li> </ul>	
<p><b>Potential drawbacks of partnerships</b></p>	<ul style="list-style-type: none"> <li>• Decision-making on products at KEMSA may take up to a year due to multiple technical partners who collectively finalize requirements</li> <li>• May be slow to pay their creditors (up to 6 months) because many lower tiered public facilities are slow to pay them for supplies</li> </ul>	

# MEDS: Also provides opportunities to scale to FBO and gov., but historically have not been known for supplying products & equipment

<p><b>Overview</b></p>	<ul style="list-style-type: none"> <li>• Mission for Essential Drugs and Supplies (MEDS) is the second largest medical supplies procuring entity in Kenya servicing FBO, NGO &amp; government facilities</li> <li>• MEDS has historically focused on pharmaceuticals and supplies but only started supplying products and equipment mid-2019</li> </ul>
<p><b>Key considerations for new innovations</b></p>	<ul style="list-style-type: none"> <li>• Are innovations demanded/ requested by facilities served by MEDS?</li> <li>• Is MEDS already supplying a similar type of product in bulk?</li> <li>• Are innovations compliant with Good Manufacturing Practices (GMP)?</li> </ul>
<p><b>Potential benefits of partnership</b></p>	<ul style="list-style-type: none"> <li>• <i>Scale oriented:</i> MEDS offers an avenue to quickly scale healthcare solutions through Kenya's numerous FBO facilities</li> <li>• <i>Design for affordability:</i> Being owned by church bodies, they accept lower margins (~10%) for FBO, NGO, and some government facilities</li> </ul>
<p><b>Potential drawbacks of partnerships</b></p>	<ul style="list-style-type: none"> <li>• MEDS is historically known for supplying pharmaceuticals and medical supplies so many facilities do not immediately think of them for products</li> <li>• <i>Commercialization:</i> By consolidating purchases from numerous facilities, they have leverage to effectively negotiate lower prices with innovators</li> </ul>

**Client examples**



**Kijabe National Hospital**

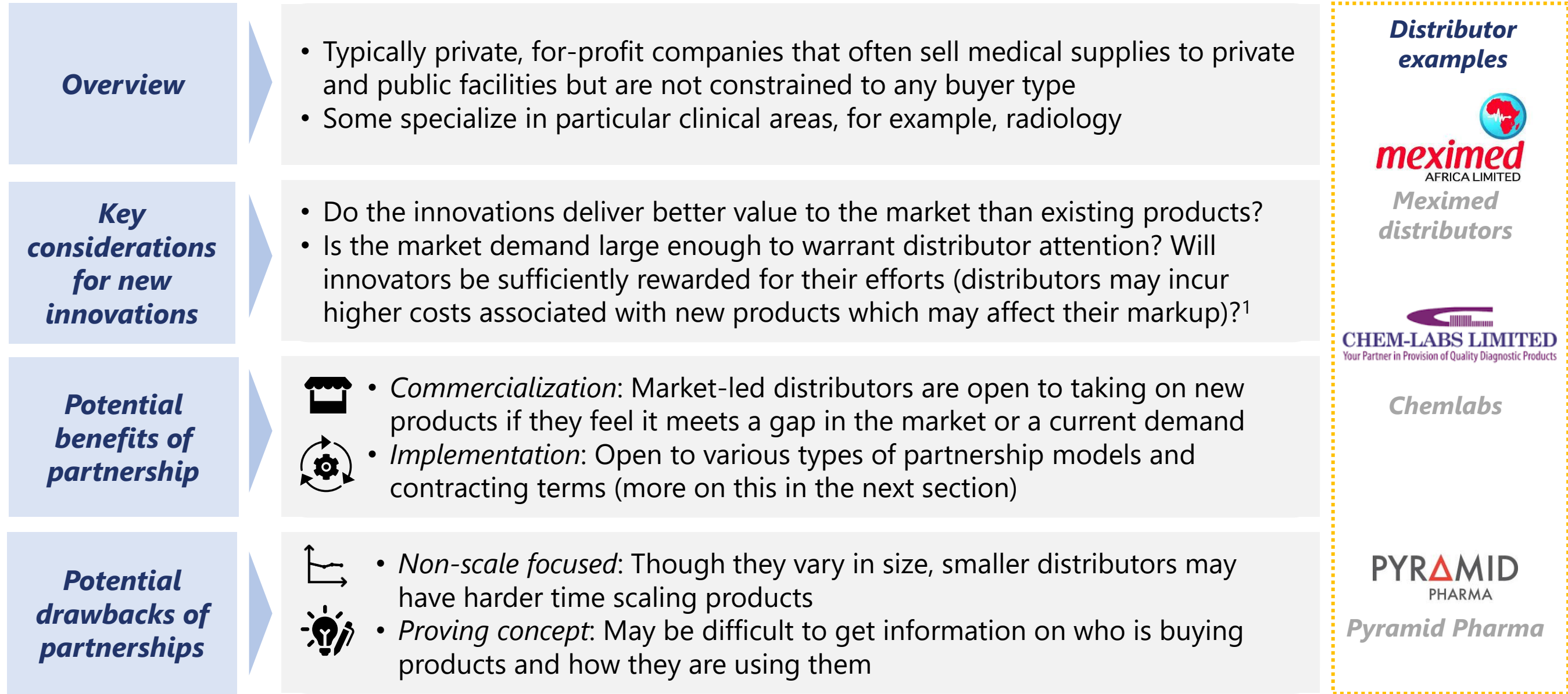


**Coptic Hospital**



**Mater Hospital**

# Market-led distributors: Open to new innovations; driven by market fit and evaluate products based on risk and reward tradeoffs



Note: (1) Based on consultations, for new innovative products, distributors may require ~70% mark-up to warrant the investment needed to bring the product to scale  
Sources: [Image 1](#), [Image 2](#), [Image 3](#)

# Donor-aligned distributors: Help prove effectiveness and market demand of products that address global health challenges





<p><b>Overview</b></p>	<ul style="list-style-type: none"> <li>• Donor-aligned distributors receive broader programmatic funding to conduct research, implementation, advocacy, data collection; distribution of new products may be a component of those activities</li> <li>• May continue distributing products after funding finishes if market proved</li> </ul>
<p><b>Key considerations for new innovations</b></p>	<ul style="list-style-type: none"> <li>• Does the innovation help support the goal of donor-aligned programs?</li> <li>• Does the innovation improve the quality of care or current practices?</li> <li>• Can demand be generated for products, as they still must sell new products?</li> </ul>
<p><b>Potential benefits of partnership</b></p>	<ul style="list-style-type: none"> <li>• <i>Proving concept:</i> May help with collecting data on effects of the product; also willing to work with less established businesses including universities</li> <li>• <i>Design for affordability:</i> May subsidize the cost of a product to the buyer, particularly when targeting low resource setting</li> </ul>
<p><b>Potential drawbacks of partnerships</b></p>	<ul style="list-style-type: none"> <li>• <i>Commercialization:</i> May have limited commercial reach since they are more programmatic driven rather than profit-making</li> <li>• <i>Commercialization:</i> Product support may be contingent on donor funding which may be time-bound</li> </ul>

**Distributor examples**



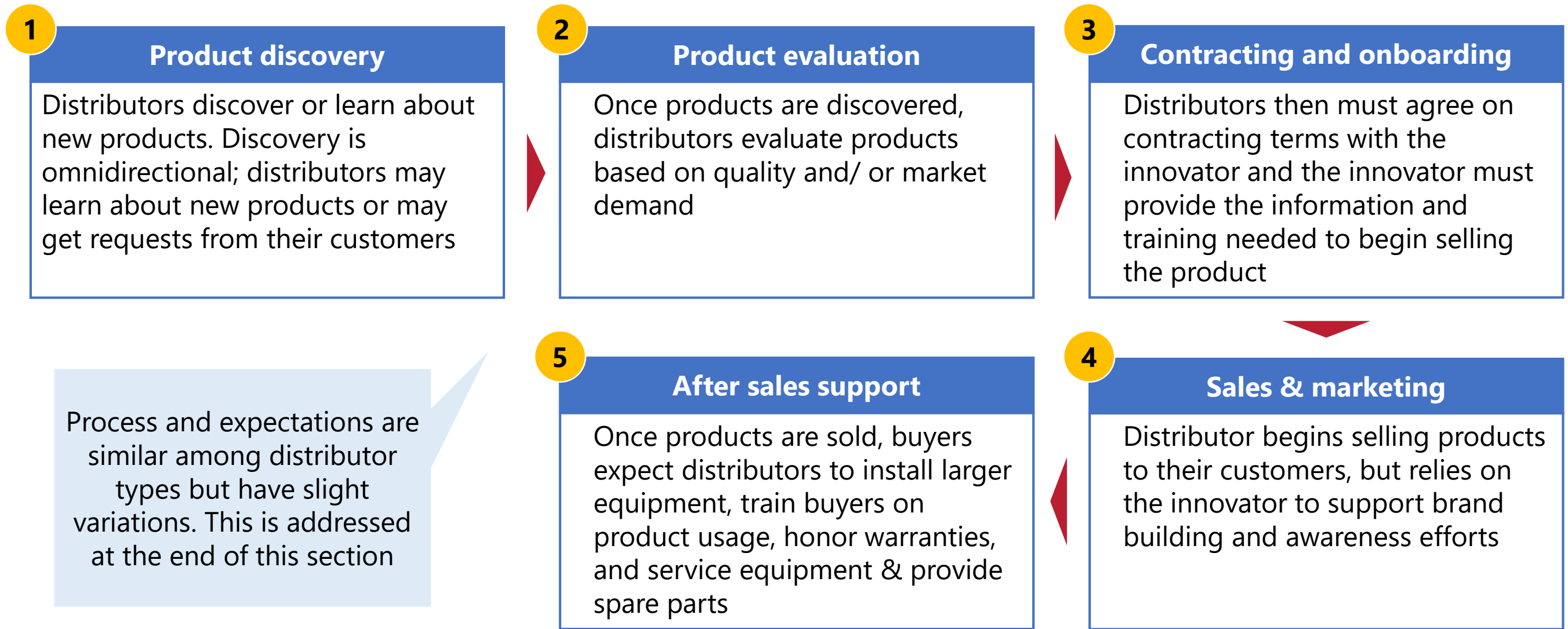



# Distributor fit: In addition to innovator intentions and product types; product demand, clinical evidence & production capability drive fit

KEMSA	MEDS	Market-led distributors	Donor-aligned distributors
<p>Innovators &amp; products indicating a good fit<sup>1</sup>:</p> 	<p>Innovators &amp; products indicating a good fit<sup>1</sup>:</p> 	<p>Innovators &amp; products indicating a good fit<sup>1</sup>:</p> 	<p>Innovators &amp; products indicating a good fit<sup>1</sup>:</p> 
<p><b>Other indications of a good distributor fit:</b></p> <ul style="list-style-type: none"> <li>• There is buy-in of influential KOLs</li> <li>• There is clinical evidence supporting the product in-country or in similar environments</li> <li>• Innovator has working capital available for up to 1 year while product approved</li> </ul>	<p><b>Other indications of a good distributor fit:</b></p> <ul style="list-style-type: none"> <li>• Products have existing demand from MEDS-served facilities</li> <li>• Products can be provided in bulk (though okay to provide smaller volumes)</li> <li>• Innovator looking to expand their product reach to different low-resource geographies</li> </ul>	<p><b>Other indications of a good distributor fit:</b></p> <ul style="list-style-type: none"> <li>• Product has already scaled in similar markets</li> <li>• Innovator is willing to grant exclusivity to their product in countries where the distributor will have to build the market</li> </ul>	<p><b>Other indications of a good distributor fit:</b></p> <ul style="list-style-type: none"> <li>• The market demand and business model are not yet established</li> <li>• Product addresses a well-documented and well-funded public health issue</li> <li>• Innovation team has not yet formed a business (e.g. still under university/ NGO)</li> </ul>

# What is expected of me to effectively support a distributor?

# Distributor process: For an effective partnership, innovators must support distributors from product discovery to after-sales support



**Distributors have expectations of innovators at each stage. Innovators need to understand the distributors process and be prepared to support**

Note (1) Biomedical evaluations may not always occur by the distributor if they do not have the capacity in-house (2) Steps may occur concurrently or overlap

# Product discovery: Innovators are expected to promote their products and industry functions and ensure they are easily found online

## 1. Product discovery



### Key insights

#### Product discovery is omnidirectional using push and pull methods:

##### Push:

- Distributors may discover new products through online research, attending industry trade shows (e.g. Arab Health), professional networks
- Distributors with larger medical evaluation teams may have embedded practitioners within facilities who actively monitor doctor and nurse behaviors to identify pain points that products can address

##### Pull:

- Doctors and nurses on occasion request products from distributors. Doctors and nurses may discover them by seeing them first-hand at other facilities or through professional associations gatherings (e.g. National Nurses Association of Kenya)
- Distributors need to have strong existing relationships with institutions/ individuals for these pull requests to be filtered through to them



### Expectations of an innovator

#### Engage in product promotion activities such as trade exhibitions and medical conferences

- To reach the local market, innovators must promote products in-country, e.g. at professional association annual meetings or through KOLs
- To reach distributors, innovators should attend and promote their product at regional trade shows

#### Innovators should ensure their products are easily found online

- Innovators should invest in their websites, online presence, and in search engine optimization (SEO)

# Product evaluation: Innovators should provide data and analysis on product performance & cost savings, and must register product locally

## 2. Product evaluation



### Key insights

#### **Distributors evaluate product quality based on biomedical evaluations of product performance**

- Larger distributors may have in-house biomedical engineers
- Smaller distributors evaluate quality based on previous experience and may consult industry experts for advice due to a lack of in-house expertise

#### **Distributors consider the financial implications of selling an innovation by weighing the expected returns against expected costs**

- Expected returns are calculated in-house and are based on instinct, comparable product performance, and compatibility with current clients
- Costs considered are a combination of onboarding and marketing costs

#### **Distributors often rely on others to evaluate health outcomes and risk**

- Distributors often assume regulatory bodies (e.g. Kenya's PPB, FDA, etc.) have already checked for relevant product certifications
- KEMSA, the distributor most concerned about regulations, relies on advisory bodies who compile the KEMSL to assess clinical evidence of a product's effectiveness



### Expectations of an innovator

#### **Though financial evaluation is done in-house, innovators can help by providing their own analysis**

- Innovators can share their own analysis of cost savings and comparisons of competing or substitute products

#### **Innovators should also ensure they have production and logistics capabilities**

- This helps to provide comfort to distributors that sales forecasts generated by innovators will be maintained

#### **Innovators must ensure products are registered locally**

- Innovators must register or have a clearly outlined plan for registration

# Contracting & onboarding: Innovators should be prepared to negotiate contracting terms & be ready to provide sales & technical training

## 3. Contracting and onboarding



### Key insights

#### Contracting terms often negotiated between distributor and innovator include:

- 1. Price limitations:** Stipulating the maximum mark-up for a distributor. Negotiations are based on expected volumes and effort required to sell
- 2. Exclusivity:** Guaranteeing a distributor they will be the only party to sell products in a defined region. Often used when distributor must invest in marketing to build a new market. May include a minimum sales value a distributor must make of a period of time to retain exclusivity
- 3. Level of sales support:** Stipulation of level of sales effort, e.g. a salesperson dedicated to selling the product or selling multiple products
- 4. Credit terms:** Number of days after invoice that a distributor pays the innovator after a sale. Market-led distributors may not expect credit terms initially but want 30-60 days of credit after a track record of trust is built

#### Innovators should onboard and train sales and technical teams

- Innovators must ensure sales teams have the product information and appropriate marketing and training collateral
- Should ensure distributor's technicians can service products, sometimes requiring certification courses for company to offer service contracts



### Expectations of an innovator

#### Innovators need to understand different distributor terms

- Innovators need to familiarize themselves with key distributor terms for easier negotiation and partnership
- #### Innovators should provide sales and technical training
- Some innovators fly in reps to conduct trainings in person, while others offer trainings online
  - Innovators may develop a certification program that allows companies/employees to offer service contracts or access sales discounts

#### Innovators should ensure they can accept international currency transactions

# Sales and marketing: Innovators are expected to lead marketing efforts of their product & provide sample/ demo units; distributors lead sales

## 4. Sales and marketing



### Key insights

#### **Distributors handle sales while innovators lead marketing efforts**

- Distributors handle sales e.g. individual sales calls, relationship management, product demos at individual facilities, price negotiations, etc.
- Innovators handle and lead marketing efforts and brand building through events and advertising in country, with distributors supporting these efforts by providing local context and the names of key contacts

#### **Key opinion leaders (KOLs) play an important role in brand building, and can be pursued by the innovator and the distributor alike**

- KOLs are highly influential. They are often university professors at institutions such as Kenyatta University that sit on various advisory committees, or heads of professional associations, such as the Kenya Society of Anaesthesia

#### **Free samples and/ or demo units are standard in the industry**

- Doctors and nurses are unlikely to request to buy new products unless they have tried them first. It is standard sales practice to provide samples or leave demo units at healthcare facilities for ~2 weeks at a time



### Expectations of an innovator

#### **Innovators are required to lead marketing efforts**

- Innovators, supported by the distributor, may demonstrate their products at trade shows or professional gatherings
- Innovators may host continuous medical education (CME) events or hold round-table discussions with KOLs to discuss topics relevant to their product

#### **Innovators are required to provide samples for inexpensive products or demo units for larger equipment**

- Innovators should factor this into their marketing budgets to gain buy-in from practitioners

Note: (1) Innovators may need to market their product to distributors at the discovery phase and then work with distributors during the sales and marketing phase to ensure the product reaches buyers

# After-sales: Innovators may need to support distributors as they provide after-sales support & make sure spare parts are available

## 5. After-sales support



### Key insights

#### **Distributors provide training to buyers on product use and repairs**

- Innovators may have to train distributor biomedical engineers
- In high-risk situations, distributors may accompany doctors who are inexperienced with their product for guidance e.g. in an operating theater

#### **Many distributors provide and charge for preventative maintenance or on-call service contracts. This can be used as a competitive advantage**

- Many distributors consider after-sales support an important part of their business model that gives them a competitive advantage and a predictable revenue stream
- After sales contracts are very important for specialized products/ equipment that a facility's biomedical team is likely unable to repair

#### **Distributors often perform service on products under warranty**

- This may include repairing equipment, providing spare parts, or replacing damaged equipment
- Warranties are typically expected to last 1 year



### Expectations of an innovator

#### **Though distributors will largely handle repairs, innovators may need to provide ongoing support**

- Innovators may need a channel (e.g. hotline) to support distributors on difficult maintenance cases
- Some innovators charge the distributor for this service through a support contract and certification program

#### **Innovators should provide 1-year of warranty and support distributors in honoring them**

- This means ensuring they have spare parts & replacement units on demand
- Innovators must also outline what cases will be honored under warranty



# Differences in process: While innovator expectations across distributor segments are similar, there are differences worth noting



## KEMSA

### Product discovery:

- Greater expectation to focus on KOL's and other credible bodies

### Distributor evaluation:

- Additional innovator advocacy may be required to get standard of care included in government protocols

### Contracting and onboarding:

- Innovators are expected to accept standardized, less flexible contracting terms



## MEDS

### Sales and marketing:

- Regional sales teams may need regional marketing support

### Contracting and onboarding:

- If prices are negotiated down by MEDS, innovators should ensure that they optimize transport, logistics, and other variable costs



## Market-led distributors

### Contracting and onboarding:

- Innovators should ensure they optimized costs (e.g. logistics) and forecast inventory as MEDS may squeeze innovator on pricing

### Sales and marketing:

- MEDS has regional sales/ marketing reps and therefore may require more marketing support outside of major cities (i.e. Nairobi, Mombasa, Kisumu)



## Donor-aligned distributors

### Product discovery:

- Innovator advocacy should also include influential donors

### Contracting and onboarding:

- Innovators may need to provide data on previous clinical and field trials to support current donor programming

### Sales and marketing:

- Lesser expectation to lead marketing efforts as programmatic funding often covers this aspect

Note: (1) Important to consider that donor-aligned distributors may support innovators in taking products to market at subsidized prices that are not reflective of commercial realities. This may impact growth and market expectations around price long term

# Market-entry checklist: In addition to meeting distributor expectations, innovators should also plan for other market-entry considerations

## Market entry checklist innovators should research and plan before approaching distributors

### Part of establishing distribution partnership



**Ensure after-sales support:** Ensure innovator or distributor can service product; consider offering 1-year warranty on devices



**Supply samples:** Ensure sample and demo products are on hand; more expensive devices are usually trialed for periods of time



**Conduct cost analysis:** Prepare analysis on the cost savings unlocked by product as compared with competitor and substitute products



**Create training materials:** Create materials to train distributor or facility maintenance teams on product use, installation, and maintenance

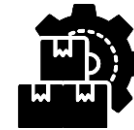


**Prepare marketing plan:** Identify industry events and KOLs to engage; create marketing collateral to be used by distributors

### Part of general market entry preparation



**Open business accounts:** Ensure an ability to accept international finance transactions



**Build production capability and inventory management:** Set up manufacturing capacity and inventory management systems



**Build logistics capability:** Document dimensions, battery specifications and more; identify partner for international freight



**Register product in-country:** Register product with the Pharmacy & Poisons Board (PPB), as products cannot be used in Kenya without this



**Survey market, set pricing, & forecast sales:** Understand competitors, create pricing strategy, & continuously forecast sales

Some of these actions can be executed in parallel with efforts to set up local distribution; however, all should be planned for in advance

# Appendix



This report was commissioned as part of the Accelerating Saving Lives At Birth (A-SL@B) to help give insights to the portfolio of 110 innovators funded under the Saving Lives At Birth (SL@B) Grand Challenge. The SL@B program seeks to overcome these challenges by supporting the development and transition-to-scale of groundbreaking innovations in low and middle-income countries that accelerate substantial and sustainable progress against maternal and newborn deaths and in the prevention of stillbirths. Saving Lives at Birth seeks innovative solutions that are affordable, accessible, sustainable and of high quality across three focus areas: science and technology, service delivery, and demand creation.

## ***Report methodology***

To gather insights on the report, we carried out desk research and conducted consultations with 5 buyers, 6 distributors, and 2 key opinion leaders. When deciding our methodology for identifying consultations, we intended to get the views of a diverse set of stakeholders. For buyers, we interviewed government facilities, private facilities/ FBO & NGO facilities, and implementing partners. For distributors, we interviewed small and large private and public distributors, market-led distributors, and donor-aligned distributors. Lastly, for key opinion leaders, we interviewed high profile professors, practitioners, and industry heads. This enabled us to gather insights on what the various stakeholders evaluate when purchasing products, what they expect from innovators, how innovators can support them during the evaluation process, and which types of innovators are a good fit for the various stakeholders.