

Medical Device Manufacturers: What is Your Service Business Prognosis?

By Joe Siderowicz

Most medical device manufacturers acknowledge service should be the most profitable part of their business. In fact, analysts have estimated the profitability of the medical device service business is nearly 60% higher than equipment sales. Yet only one in five manufacturers have done recent analysis of key areas such as service agreement profitability, service sales strategy, alignment of service offerings with changing customer requirements or the effectiveness of their service sales effort. For many manufacturers service marketing is a part time function, while others admit to no real service marketing effort. Almost all admit they could do more, but haven't had the time to focus on improving the current situation.

Profitability of service agreements continues to be a moving target. Capturing data to measure service labor efficiencies for both on-site and remote services remains a challenge. The shortage of credible financial metrics often contributes to failed efforts when service business executives try to justify investments. Segmenting investments that support service delivery versus those that capitalize on service market opportunities is crucial to the growth and proper resource allocation of the service business. This situation is a major reason why it is estimated that medical device companies, on average, are investing nearly 10 times more in product sales staff recruitment and training than their service sales effort.

Most medical device executives understand their service sales program helps to enhance their market and financial position. Many capture more than 95% of their service revenue from their own installed base. They are keenly aware of the profit potential, the positive impact on customer relationships and the financial stability their company enjoys with a solid base of renewable service agreement customers. Absent in most cases is the expertise and understanding of proven service selling concepts utilized in similar market segments.

As an example; a common scenario occurs when medical device companies, especially companies focused on complex high-ticket medical systems, seek to win or maintain market share or a particular "socket". A service agreement tied to the equipment order can become "commoditized" in the chase to close the deal. The result; a service agreement, perhaps with a multi-year term, is heavily discounted in conjunction with the equipment sale. The lack of a clearly defined integrated service sales strategy will have a long term impact on service margins and profitability. Far too many companies accept the status-quo and fail to realize a more profitable service agreement would have been attainable if sales people were armed with the right sales strategy, training and service offering.

Misalignment of service offerings can also impact the viability of a company's service business. Customers are increasingly demanding faster response times. This is especially true in hospitals, clinics, doctor's offices, and labs that provide services to demanding clients while faced with rising operating costs. In a recent survey a majority of medical device company service personnel stated that the customer expectation was next day for non critical situations and same day for critical response. While customers surveyed in the same market stated that eight hour response for non-critical and two hour response for critical situations was their minimum expectation. Where will the funding come from to invest in the people and processes needed to meet escalating customer requirements? Service executives can continue to fight for a greater piece of the corporate investment pie, or they can focus on their own opportunity to self fund needed investments by maximizing their service marketing opportunities.

Most medical device company executives strongly affirm that they have a service marketing program in place. But few would argue that the program is focused on product support rather than driving service revenue. In fact in a recent survey many stated they had yet to “brand” their service offerings. Most stated that their service offerings were a result of historical data that had been collected through product marketing initiatives or mimicking industry leaders. Others stated that a “customer needs” assessment had been developed by product marketing or that their current service offerings were a direct result of a response to competition in the marketplace. A service marketing program that primarily supports product sales inevitably becomes relegated to the position of a product feature. Without a strategic plan in place that recognizes that service is a business and can grow both interdependently and independently of product sales, service market opportunities will be lost.

A solid prognosis starts with a good diagnosis. Unfortunately, most medical device service executives don’t have the time to examine current service business strategies or lack a solid footing in current best practices within the industry. There remains a certain amount of irony in the fact that the medical service culture thrives on responding quickly to emergency situations, but seems to have a “We’re going to address that down the road” mentality when it comes to the treatment of issues that negatively impact the health of their own service business.

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