

A Work Project, presented as part of the requirements for the Award of a Masters Degree in Management from the NOVA – School of Business and Economics.

A REFINED ROUTE-TO-MARKET STRATEGY FOR ERBE IN SOUTH KOREA

Francisca Batschelet Barros

Masters in Management | 1012

A Project carried out on the Masters Degree in Management, under the supervision of:
Professor Jonas Puck

6th July 2015

ABSTRACT

A refined route-to-market strategy for Erbe in South Korea

ERBE is a German manufacturer of medical devices operating in South Korea since 2005. However, since 2011 revenues in the South Korean market have been decreasing, despite overall market growth. As such, this Work Project, based on the CEMS MIM business project developed with ERBE, focuses on recommending a “Refined route-to-market Strategy for ERBE in South Korea” in order to enhance growth. This new strategy relies on three key aspects: adopting a multi-distributor approach, enhancing distributors’ motivation and fostering relationships with customers.

Keywords: Medical devices; Route-to-market Strategy; Distributors; Entry modes

CONTENTS

1. BRIEF CONTEXT.....	3
1.1. COMPANY PROFILE.....	3
1.2. MARKET OVERVIEW.....	3
1.3. ERBE CURRENT SITUATION.....	4
1.4. THE BUSINESS PROJECT CHALLENGE.....	5
2. REFLECTION ON THE WORK DONE.....	6
2.1. PROBLEM DEFINITION.....	6
2.2. HYPOTHESIS.....	6
2.3. WORK PLAN.....	7
2.4. ANALYSIS.....	8
2.5. RECOMMENDATIONS.....	17
2.6. CONCERNS.....	23
3. REFLECTION ON LEARNING.....	24
3.1. MASTERS CONTENT APPLIED.....	24
3.2. NEW KNOWLEDGE APPLIED.....	25
3.3. PERSONAL EXPERIENCE.....	26
3.4. BENEFIT OF HINDSIGHT.....	27
4. CONCLUSION.....	28
5. REFERENCES.....	29
6. APPENDIX.....	30

1. BRIEF CONTEXT

1.1. Company profile

ERBE Elektromedizin GmbH (hereafter, ERBE) is a German, family-owned manufacturer of medical devices. The company was founded in Tübingen in 1951 by Christian Heinrich Erbe. Since then, ERBE grew significantly to become a relevant global player in the medical devices market.

ERBE's product range includes systems for electro surgery, vessel sealing, argon plasma coagulation, cryosurgery and waterjet surgery, serving medical specialties such as general surgery, gastroenterology, gynecology, pneumology and urology.

Customer satisfaction is at the core of the company mission, excellent customer service being one of the main strengths of the company. To achieve this goal, the company remains in close and constant dialog with scientists and surgeons from a wide range of specialist disciplines in order to develop new and improved devices that are adapted to doctors and patient needs.

Currently, ERBE has a worldwide presence, with sales in more than 110 countries via 13 subsidiaries and 2 representative offices. However, R&D and manufacturing activities are still based in Germany, in Tübingen and Rangendingen. Accordingly, 579 of its 858 employees work in Germany, either in manufacturing, administration or research and development. Company sales amounted to 200 million € in 2014, 78 % being exports, showing that the international expansion strategy pursued by the company in the last decade has proven to be successful (ERBE Business Plan, 2014). In terms of product offering, electro surgery is the most important product, representing 62% of total sales. USA, Germany and China are the most important countries in terms of sales.

1.2. Market Overview

In 2005, ERBE entered the South Korean market. The South Korean medical devices market is growing steadily, similarly to what happens in other developed countries all over the world. The main favorable trend that supports this growth is the fact that the population is ageing rapidly. In fact, South Korea is expected to have one of the oldest populations in the world by 2050, with the number of people above 65 years increasing from 12.7% to 37.3% in 2050 (Market Line,

2014). Naturally, the fact that the population is ageing rapidly increases the need for medical care, thus for medical devices.

Analyzing the medical devices market in South Korea, it is estimated that it has been growing at a 4.6% CAGR over the last four years, reaching approximately 17 million in 2014 (Business Project, 2015). In terms of competitive dynamics, there are 8 relevant players, 3 large multinational companies with strong brands and close relationships with major hospitals and smaller players focusing on specific niche markets where they can excel by offering superior products. Although the market is attractive because it has been growing significantly in the last few years, regulation is a major obstacle to enter this market. In fact, South Korea has very strict regulation when it comes to developing and selling medical devices, due to the potential risk for the patient. Thus, before starting to sell its products, all medical devices manufacturers have to register their products, following a complex and time-consuming process that can last up to 4 months. Due to this process, most of the players opt to market their products through a distributor.

1.3. ERBE Current Situation

ERBE entered the South Korean market in 2005, selling its products via a distributor and managing the business through its Singaporean subsidiary, which controls 22 other Asian countries.

Due to its small size compared to global players such as Ethicon or Covidien, ERBE has been operating in South Korea by focusing in a narrow range of products and in second-tier hospitals. Furthermore, the company's strategy relies on offering high quality and safe products, similarly to what happens at a global scale. The "made in Germany" aspect is also very important in South Korea, as Korean doctors see products coming from Germany and the USA as being superior. The company is also present in numerous congresses and conferences in the Asia-pacific region, which is an important means of interacting with doctors and health care professionals and to raise brand awareness.

In its first years of presence in South Korea, ERBE sales grew steadily, and the company reached a strong market share in the gastroenterology market. It is important to mention that the medical devices market can be divided in two main segments, according to the products' application:

gastroenterology and general surgery. Products, needs, key success factors and even the selling process differ in these two segments. ERBE products for the gastroenterology segment provide important benefits such as minimum blood loss and high degree of tissue selectivity during both preparation and dissection. Regarding general surgery, the main advantages of ERBE products are shorter operating times (due to the fact that all working steps can be performed with the same instrument) and a good view of the operating site.

While ERBE has been able to achieve a strong position in the gastroenterology market with almost 80% market share, the company is underperforming in the general surgery segment, reaching only a 5% market share (ERBE Business Plan, 2014). Moreover, as opposed to the first years of operation in South Korea, in the last few years, ERBE sales have been decreasing, while the market is growing at a significant pace. In fact, sales decreased from 1.76 million € in 2011 to 1.34 million in 2014, at a CAGR of -8.6%.

1.4. The Business Project Challenge

The fact that the company was not satisfied with its performance in South Korea in the last few years was the main cause for the launch of this Business Project. As the market is growing, ERBE believes that its performance can be improved.

Accordingly, the main objective of this project was to come up with a strategy that would enhance performance in the South Korean market, using both primary and secondary data as the basis for the recommendations.

More precisely, four outcomes were specifically requested:

- An overview of the market potential for ERBE's product lines in South Korea, that is, a Market Sizing Model
- An analysis on ERBE's competitors
- A concept for ERBE in South Korea going forward with regards to Channel/distributor management
- Financial models to motivate the distributor.

2. REFLECTION ON THE WORK DONE

2.1. Problem definition

The main problem of this business project was, as mentioned before, the fact that ERBE sales have been decreasing in the South Korean market, whereas the market has been growing steadily. Thus, the team was challenged to come up with a set of recommendations that would enable ERBE to enhance its performance in the South Korean market. More explicitly, the main question of this project was: “How can ERBE improve its sales in South Korea?” The company believed that the problem relied on the distributor, but a comprehensive analysis of the overall strategy of the company was carried out during the project in order to find out the root causes of the problem. Throughout the interviews and secondary data research, the team was able to confirm that the distributor was one of the causes of the poor performance, along with other aspects.

This problem and consequently the business project were especially relevant for the company due to two main reasons. Firstly, South Korea is an important market for ERBE in the Asia-Pacific region, due to its dimension and growth. Secondly, the managing director for South Korea together with the top management team were in the process of making a decision on how to deal with this issue, and so the insights gathered during this business project were crucial for the decision.

2.2. Hypothesis

The hypothesis underlying this project was that ERBE’s decreasing sales in South Korea were due to its go-to-market approach, and more specifically to its distribution partner. Thus, during the whole project the team analyzed ERBE’s situation in South Korea in order to understand whether the hypothesis was true, or if there was another root cause at the core of this problem. Although the company believed the decreasing revenues could be explained by the distributor performance, several other aspects of the company’s strategy were analyzed in order to verify the hypothesis and come up with the recommendations.

2.3. Work plan

After the first meeting with the company and analyzing the data available at that time in order to better understand the project and the expected outcomes, the project was then structured into four main parts, with deadlines and milestones for each part:

1. Market Potential
2. Competitors Analysis
3. Company Analysis (ERBE) & Interviews
4. Route-to-market strategy

The main objective of the first stage of the work was to estimate the market potential of the medical devices market for the next few years. Through interviews with the company and secondary data research, a market sizing model was created (see appendix 1). However, before that, in order to better understand the country and market dynamics, a PESTLE and a Five Forces Analysis were performed. This first part was especially important to get a deeper understanding of the market and the drivers behind the trends.

The second stage of the project was to conduct an in-depth competitor's analysis. After researching both qualitative and quantitative data on each competitor, an extensive analysis was performed, focusing namely on the strategy, product offerings, strengths & weaknesses and market approach of each competitor.

After assessing the market potential and the competitive landscape of the industry, the next stage of the work was the analysis of ERBE and the expert interviews. At this stage, a SWOT Analysis of ERBE was undertaken in order to assess the company's current situation. Besides, during this phase, expert interviews were conducted. The main goal with the interviews was to better understand the market dynamics and the key success factors in the industry.

The last stage of the project was the analysis of ERBE's entry and go-to-market strategy. The main objective was to understand if there were opportunities for improvement in the current approach. In this part, the main sources of information were the interviews conducted both with ERBE and its distributor, as well as secondary data about entry modes and distributor motivation.

All the stages of the work were successfully completed without delays, except for the interviews. In fact, the team struggled to find experts such as doctors or researchers that were willing to participate in the project. However, after resorting to personal networks as well as the company's contacts, the interviews were concluded and proved to be crucial for the outcome of the project.

With these four stages of the project, the team was able to come up with recommendations that fulfilled the four outcomes requested by the company.

2.4. Analysis

During each stage of the project, important insights from the analysis were gathered, which were then at the basis of the recommendations.

Market Potential

The first stage of the project was to analyze the medical devices market in South Korea. According to the PESTEL Analysis, South Korea is a country with a developed legal system and a steady economic growth. Its workforce is highly educated and technically qualified, which means that foreign companies entering the country can easily find qualified local resources. The fact that the population is aging rapidly poses several social challenges for the country. However, it has a positive impact in the medical devices market. In terms of social factors, the fact that there was an impressive improvement of the healthcare system in the last few years and that the government is still investing in new hospitals and clinics will also benefit the medical devices market.

In terms of competitive dynamics, rivalry among competitors is significant due to high exit barriers. Even though each hospital makes autonomous decisions, the public sector represents 54% of the total health expenditure. Thus, public hospitals tend to have high bargaining power due to their size and reputation. Regarding threat of new entrants, it is considered to be relatively low, since the level of investment required is high. Moreover, regulation is an obstacle for new entrants, as it delays significantly the time to market. However, in the long-term, new entrants might appear due to the sustained ageing of the population in South Korea. The threat of substitutes is low, due to the fact that there are only a few viable product substitutes and that the switching costs are high, as most of the doctors are loyal to the brand that they are used to work with. Furthermore, medical devices have a long lifespan. Overall, although the market is quite

attractive since it is growing and threat of new entrants and substitutes is low, rivalry among competitors is relatively high due to high exit barriers and the fact that most competitors are committed to the business, as most of them only operate in the medical devices market.

However, the main outcome of this stage was the market sizing model. The market size for each sub-segment was calculated by multiplying the number of units/instruments to be sold by the price per unit/instrument. To derive the number of units to be sold, the number of hospitals in South Korea was multiplied by the average number of operating rooms (or GI labs for the GI segment) per hospital and then divided by the lifecycle time (in years) per unit. For the price per unit, an average price per sub-segment was calculated from a price list provided by ERBE. For the instrument segments, only single-use instruments were considered. To derive the number of instruments to be sold, the number of surgeries in South Korea (for which the instruments of each sub-segment can be used) was researched. For the price per instrument, an average price per sub-segment was again calculated based on the price list provided by ERBE. As a last step, the results for each sub-segment are summed up to an overall market size. The model estimated the overall market size to be EUR 18m, with an annual growth rate of 4.4% for the next 3 years. In terms of segments, general surgery represents 74.9% of the market whereas gastroenterology only represents 25.1%. The split between units/modules and instruments shows that instruments account for 85.5% of the market, since their lifecycle is significantly lower.

All in all, according to the market analysis, the medical devices market in South Korea can be considered an attractive market due not only to its dimension and growth but also because of the country's legal, social and economic environment.

Competitors Analysis

After analyzing the market, an in-depth competitor's analysis was performed. There are 7 relevant competitors in this market: Ethicon, Covidien, Olympus, KLS Martin, Bowa, Conmed, and Bovie.

Ethicon, part of the Johnson & Johnson group, is a global player that offers a wide range of products. The company has sales centers in more than 50 countries and worldwide sales of \$27.5 billion. The fact that Ethicon is the world's most diversified surgical solutions and medical

devices company, along with its strong research and development capabilities are its main strengths. In South Korea, the company sells both via direct selling and authorized distributors.

Covidien is also an American company with a global presence, with sales in more than 150 countries and revenues of \$10.2 billion. The company's main strengths are its commitment to innovation and R&D and the ability to involve hospitals and doctors into its product development process. In terms of weaknesses, voluntary product recalls have been harming the company's brand image. In South Korea, Covidien relies both on a direct sales force and on distributors to sell its products, operating through wholly-owned subsidiary. It is also important to mention that the company built a Center of Innovation in South Korea that exists as a training center for healthcare professionals and trainees to actively engage in development of medical devices, which shows a high commitment in doing business in this country. In 2014, Covidien was acquired by Medtronic.

Olympus is also one of the largest players operating in the medical devices market. The Japanese company develops, manufactures and sells medical devices for a wide range of medical disciplines. Worldwide sales amount to \$1.8 billion in gastroenterology and \$1.5 billion in general surgery. Olympus core competence is the Opto-Digital technology, that is, imaging solutions for medical use. In South Korea, the company sells its medical devices directly through its sales force. Furthermore, the company possesses five repair centers across the country where Korean customers can seek assistance.

KLS Martin is a smaller player that has a focused approach both in terms of product offering and value chain activities performed. The German company is present in 142 countries, having reached sales of \$171 million in 2014. Despite having fairly high diversification in terms of medical disciplines served, the number of product within each category is very limited. While manufacturing activities are performed internally in Germany, R&D activities are outsourced to research centers and universities. In South Korea, KLS Martin operates via a distributor.

Bowa is a small German player that focuses on electrosurgical devices that cover the entire demand spectrum of modern hospitals. The company has worldwide sales of approximately \$40 million in 85 countries. Products are manufactured in Germany, and sold in South Korea through a distributor.

Conmed is an American company operating mainly in the orthopedic and general surgery segments, with sales of about \$763 million in more than 100 countries. The company's main strength is the fact that it fosters close relationships with physicians, surgeons and hospitals. In South Korea, Conmed operates through a wholly-owned subsidiary.

Lastly, Bovie is a US based public company that sells electro surgery products, cauterizing products and others. The company has been growing steadily in the last few years, with sales increasing 17% in 2014. Bovie's main strength is its brand awareness in the electro surgery segment, being well known amongst surgeons worldwide due to its historical presence in this segment. As for the weaknesses, the fact that the company relies mainly on its start product, J-Plasma, can be seen as risk. In South Korea, Bovie markets its products through a distributor.

One important output of the competitors' analysis was the conclusion that the medical devices manufacturers operating in South Korea are very different both in terms of size and product offerings. While Ethicon, Covidien and Olympus are large multinational companies that offer a wide range of products that serve all the medical disciplines, the rather smaller companies focus on a narrower range of products. ERBE and KLS Martin seem to be in between these two groups. Another key insight from this competitor analysis that was then confirmed with the expert interviews was the importance of engaging and interacting with customers/doctors. On the one hand, large multinational companies are the ones that invest the most in the relationship with doctors. They have several initiatives designed at interacting with doctors such as being present in congresses, conferences, providing online educational resources and training programs for doctors, having their own training facilities and incorporating doctors' feedback in the product development of new products or improvement of existing ones. On the other hand, smaller companies that have less resources are only present in conferences and congresses, relying in their workforce to manage the relationship with doctors.

Company Analysis & Interviews

As mentioned before, a SWOT Analysis was performed in order to analyze ERBE's position in the South Korean medical devices market. The company's main strengths are its global network (present in more than 110 countries), its know-how, and its unique selling proposition based on precision, safety and minimal invasiveness. ERBE's main weakness is the way it manages and communicates with the distributor, as well as its limited product portfolio compared with larger

companies. As hospitals usually prefer to buy most of the products from the same supplier, ERBE sometimes faces difficulties when approaching large hospitals. Regarding opportunities, the most relevant is the fact that the South Korean population is aging rapidly, which increases the needs for medical services and consequently for medical devices. Furthermore, the growing healthcare awareness as well as the rising demand for minimally invasive treatment methods are also trends that have a positive impact in ERBE's business. As for threats, the fact that ERBE's product licenses are held by the distributor leads to a lack of flexibility in changing distributors as well as an obstacle for growth.

Expert interviews proved to be a crucial part of the project, as several important insights were gathered throughout this process. Interviewees were mainly Doctors, but also medical devices sales representatives, institutions and organizations (such as the Korean Embassy, the Chamber of Commerce and others), mostly in South Korea but also in the Asia-Pacific region and in Europe. The first criteria to research these contacts was the participation in congresses and conferences. Besides, the team also resorted to personal network to gather contacts. On the one hand, the interviews were important to confirm some insights gathered throughout the secondary data research, such as the need to foster the relationship with doctors. On the other hand, new insights were also gathered, such as the fact that doctors in South Korea tend to stick with the products that they use throughout the education process. Also the fact that Koreans tend to follow stars or celebrities was an important conclusion of the interviews. All of the insights collected during the interviews were then incorporated in the recommendations.

Route-to-market strategy

The last part of this project was to analyze ERBE entry strategy and come up with a recommendation on how to improve it.

In order to find the best solution for ERBE, the company's entry strategy was re-analyzed. The objective was to assess if the current approach was the appropriate for this market. After applying the OLI Framework to ERBE, and since the company had ownership and internalization advantages but not a location advantage, either direct or indirect exports were concluded to be the appropriate strategies for serving the South Korean market (Dunning, 1988).

The registration and reimbursement processes are also an important step in the go-to-market activities of medical devices manufacturers in South Korea. In fact, when companies decide to sell medical devices in South Korea, they have to follow a registration process. The Ministry of Food and Drug Safety (MFDS) is the entity responsible for regulating the medical device registration. One important prerequisite is that medical devices that are to be imported must be approved initially in their country of origin. Above that, companies without local business presence in South Korea must appoint a Korean License Holder (KLH) as an in-country representative. The KLH is then responsible for managing the registration process with the public authorities. There are three different approval stages: i) the product license, ii) the Korea Good Manufacturing Practices (KGMP) certificate and iii) the device business license. Business and product licenses do not expire, whereas KGMP certificates are only valid for 3 years. The length of the process to receive a product license can take up to 4 months and depends mainly on the classification of the medical devices into one of four categories. The criteria for the classification is the potential risk to human bodies while the medical devices are in use. After the foreign company has passed all approval stages, their medical devices can be sold in South Korea. It must be mentioned, however, that the MFDS can demand post-market surveillance requirements from the device company. After registering the product, manufacturers or distributors have to submit the application for reimbursement. The reimbursement process is lengthy and complex. While the official lead-time is 5 months, it can take up to 12 months to obtain the reimbursement approval. The first step in the reimbursement approval process is to submit the reimbursement application to the Ministry of Health and Welfare. After that, the application is reviewed by the Health Insurance Review and Assessment Organization. This organization verifies if the product is appropriate for reimbursement, compares it to devices already listed in terms of cost and effectiveness, and gathers external expert opinion. The Medical Device Expert Committee then reviews the application. This Committee is responsible for recommending the level of reimbursement after assessing the economic feasibility and appropriateness for funding. The last step in this procedure is the confirmation of decision about reimbursement coverage and price by the Health Insurance Policy Deliberation Committee. After this, the reimbursement approval notice is published on the Ministry of Health and Welfare website. In order to decide the reimbursement level, products are split into three different categories: i) separate reimbursement, ii) reimbursement under procedure fee and iii) non-

separate reimbursement. Those in the separate reimbursement category are usually compared with those already listed in the same category. If its cost, effectiveness and clinical performance are equal or lower to the product already listed, then the reimbursement level will be equal or lower than 90% of the listed product reimbursement level. If the new product has a higher performance than the product already listed, however, then a Value Appraisal process has to be completed in order to determine the reimbursement level. Providers cannot claim products such as syringes and disposable needles separately and so they are paid as part of the procedure fee. Lastly, products having non-separate reimbursement are those products that the Ministry of Health and Welfare assesses as not deserving reimbursement, and thus patients have to pay the full price for these products. Analyzing the process, one can conclude that reimbursement is key for the competitiveness of the product in the market, since it affects the price that hospitals pay for the medical device. First-movers have a clear advantage since the reimbursement level for their products is always 10% or 20% higher than competitors' similar products. It is imperative that distributors or manufacturers have a local Korean team dedicated to the reimbursement process, since it is so complex and so important for the business. In conclusion, registration and reimbursement procedures call for the need of a local Korean partner that manages medical devices manufacturers' marketing, sales and after-sales. Thus, from the analysis, indirect exports seems to be the appropriate strategy for this market.

Since indirect exports is the most appropriate strategy for the South Korean medical devices market, it is key to find a suitable partner. Due to all the cultural and linguistic differences between Germany and South Korea, this process might be challenging. Currently, ERBE has the following four prerequisites when choosing a distribution partner:

1. Financial stability (minimum investment of 150 000€)
2. Previous activity in the medical device field
3. English fluency and good communication skills
4. Having a separate team that is responsible for ERBE's business

Besides these four aspects, based on the research and interviews conducted with doctors, medical devices sales representatives and industry experts, 10 key success factors for distributors were identified:

1. Local Korean company with strong relationships to doctors

2. Ability to discuss issues openly with the manufacturer
3. Has a clear understanding of marketing and contacts pro-actively the manufacturer with new ideas to boost sales
4. Is willing to devote a considerable amount of time to understand and get trained on ERBE products
5. Has a team dedicated to reimbursement and understands the process
6. Provides an excellent after-sales service
7. Has experience in General Surgery
8. Has experience in Gastroenterology
9. Is of a relatively small size (thus, willing to work more exclusively for ERBE and has less power in negotiations)
10. Has a good and personalized CRM system

Based on these 10 key success factors, a scoring model was built (see appendix 2). The main goal of this scoring model is to provide ERBE with a tool to evaluate distributors, rather than to pinpoint the right distributor. Since the scoring is obviously based on the team's subjective judgement, it should not be looked at as a final recommendation, but rather as a framework that will allow ERBE to assess distributors' potential to perform and compatibility with ERBE's mission and culture.

The interviews with several members of the distributor Dong-A as well as with ERBE's managing director lead to the conclusion that Dong-A is strong in the gastroenterology segment, whereas in the general surgery segment the company is underperforming. Regarding the gastroenterology segment, insights from the interviews with the distributor lead to the conclusion that the distributor has a good network of clients, is able to address issues faced during the selling process and understands the unique selling proposition of ERBE products. However, in the general surgery segment, the distributor seemed to struggle in finding arguments to sell ERBE products. More explicitly, the distributor claimed that ERBE product's main strength – minimal invasiveness – is not valued by Korean doctors, which look for safe and effective products, rather than smooth ones. However, during interviews, doctors and industry experts mentioned that they would value minimal invasive products if the patient's safety was guaranteed and if it would help patients to recover faster.

All in all, the contrast between the distributor statements and the insights from the interviews lead to the conclusion that the distributor is not being able to find selling arguments to convince Korean doctors to buy ERBE general surgery products. On the one hand, in the gastroenterology segment, ERBE products actually provide unique benefits that competitors don't have, and thus it is easier to sell these products. On the other hand, large players such as Olympus, Covidien and Ethicon have a very strong presence in the general surgery segment and thus it is more difficult to sell ERBE products. However, Dong-A has not been able to find selling arguments and tell a convincing story that would influence doctors to buy ERBE products. Therefore, one can conclude that there is a large room for improvement for Dong-A in the general surgery market. By building a better network of key influencers in this segment, better understanding the benefits provided by the products and communicating issues openly to ERBE, Dong-A would be in a better position to market these products.

Distributor Motivation

Empirical research states that companies can control foreign distributors under three control mechanisms. These are: i) outcome-based control, ii) behavior-based control and iii) relational type. It is predicted that by realizing what inter-firm control the principal company has, it will lead to more efficient export channel management. This will then translate to better distributor motivation, effort allocation and influence the distributor's contribution to performance.

Outcome-based control assumes the distributor is autonomous and is capable of directing its own actions to pursue goals. Even though there is minimal supervision, the principal company sets targets to pursue and periodical feedback is expected. Behavior-based control is paternalistic, whereby the principal imposes its company procedures to account for any inadequacy or inexperience of a distributor. Relational-type means both parties engaging in norm-based cooperative actions that mutually benefit and interest each other. Both parties give up their short-term self-interest goals (e.g. sales) in favor of long-term relationship building goals.

Based on the interviews with ERBE and Dong-A, one can conclude that ERBE uses high-outcome based control to guide Dong-A. During the interviews, both parties suggested little

supervision but ERBE sets targets to pursue e.g. sales volume, sales growth, market penetration and customer satisfaction. Furthermore, Dong-A is monitored periodically and rewarded based on performance.

Though this relationship suggests less distributor maintenance costs, some problems exist within the market context. Within a highly volatile market like South Korea, there is far too much risk shifted to the distributor. Moreover, in a market where relationships are considered a key success factor, limited involvement and support could suggest to Dong-A that ERBE is an incompatible partner. Incompatibility is argued to be seen as untrustworthy and therefore, not a body of influence.

In conclusion, there is no single best mechanism for inter-firm control management. Control is most effective when three mechanisms are skillfully blended. Before implementing financial motivators, ERBE has to address current inter-firm management issues, namely by increasing its market knowledge and by increasing distributor involvement to avoid problems of high outcome-based.

2.5. Recommendations

After the all the stages of analysis described before, a renewed strategy for ERBE in South Korea was derived, based on three main pillars:

- Market Approach
- Distributor Motivation
- Customer Relationship

By tackling these three issues, ERBE will enhance its performance in South Korea, achieving a stronger market share, especially in the general surgery segment.

2.5.1. Market approach

Indirect exports being the appropriate strategy to serve the medical devices market in South Korea, due to ERBE's internalization and ownership advantages as well as the complexity of the registration and reimbursement processes, it is key for ERBE to partner up with a suitable distribution partner.

Since, according to the scoring model Dong-A is underperforming in the general surgery market, the recommended strategy is to switch to another distributor in that segment. The company

would have then two distributors marketing and selling its products, one for each segment. Dong-A should remain the distributor for gastroenterology products, since it already built a good network of customers and its performance in this segment has been remarkable. For the general surgery segment, ERBE would have to find a new distribution partner. Due to language and cultural barriers when evaluating distributors, it is recommended that ERBE resorts to the Korean Medical Device Industry Association's distributor selection process. This association will evaluate distributors according to pre-requisites and key success factors required by ERBE, and translate all the necessary information. Regardless of the distributor chosen, ERBE should also recruit two to three employees who would be based in South Korea and would be responsible for managing distributors. Currently, the managing director of the Singaporean office is the only resource that the company has to manage the South Korean market. These employees would be crucial not only to manage the relationship with the two distributors in the future, but also because this industry is constantly changing, with new laws, trends and procedures and thus it is important to identify and react to those changes.

2.5.2. Distributor Motivation

Having two distributors is not enough to tackle the South Korean market, it is key to effectively manage the relationship and enhance distributors' motivation. Given that ERBE assumes outcome-based control with Dong-A, financial incentives are argued to be best in aligning distributor behavior with principal company's objectives (Krafft, 1999). From the secondary data research as well as the interviews with other medical device companies, five financial motivators were assessed, from high to low feasibility and their degree of impact (see appendix 3).

1. Profit Sharing/Commission Structure

These are the most common financial incentives. Distributors are rewarded after a set-target is achieved or awarded a shared from each sale. Rewards can take the form of cash or other tangible forms e.g. travel, merchandise or plaques. Cash is argued to be short-term and have no emotional salience (Banker, Lee, Potter, & Srinivasan, 1996). Thus, it is recommended that ERBE implements more tangible forms such as travel. Travel is remembered longer as they can build a memorable experience (Demirdjian, 1984). It is important, however, that this is relative to what the distributor perceives as high-value. Therefore, ERBE needs to identify their wants and needs.

2. Revised Estimates

For distributors like Dong-A that experience problem with sales, using revised estimates is recommended. Annual targets are arranged with two or more checkpoints whereby the sales targets are revised based on issues and performance up until that point. ERBE can also use this as a formal process to transfer knowledge. It is predicted that by having multi-level tiers, it will act as 'stepping-stones' for the distributor to gradually move up the sales curve. Furthermore, multiple sales peaks are expected rather than only one sales peak.

3. Sales Trainings

Partners who have had experience in large medical device companies have expressed efficacy of sales trainings during interviews conducted. It would be an annual event whereby all distributors are invited to, annually changing locations. Awards are given to those who meet targets – and not just to top-performers. Sales stars can also share success stories.

4. Direct Comparisons

Following the previous idea, a sense of 'co-opetition', that is, co-operative competition is also effective in motivation. ERBE should publish a sales ranking of all distributors to instill competition. Competition can be created within regions matched by similar size, market or geographical location (e.g. Asia-Pacific, Europe, Americas etc.). A KPI must be used for comparison, such as the percentage above agreed targets, since a percentage ratio allows for universal comparison.

5. Vertical Integration of Distributor Sales-team

As suggested by some interviewees, sales stars from the distributor can be recruited into the principal company for a larger role with higher remuneration. They would then be selected to become regional representatives of the principal company, given their proven sales experience and expertise with the local market. However, such an act can be seen as unprofessional and taking away a distributor's asset can damage the inter-firm relationship.

When considering how to motivate the distributor, it is also imperative that ERBE addresses any inter-firm management issues to assume a better position of influence and control. In particular, theory predicts there are five ways that contribute to optimal outcome-based control (Krafft, 1999). These include: high market knowledge for the principal, high distributor experience, high asset specificity, low market volatility and low resource dependence for distributor. According to the analysis of the relationship between ERBE and Dong-A, ERBE needs to address issues of lack of market knowledge and limited distributor involvement. The market knowledge, asset specificity and the market volatility dimensions capture these issues.

Little market knowledge of customer requirements, local market characteristics, culture and condition increases the incompatibility between principal and distributor companies (Oliver & Anderson, 1994). If needs and issues are not identified initially, then the principal company cannot determine which motivators are more salient to the distributor. Therefore, the principal would have limited ability to set clear performance standards, unable to specify their marketing activities correctly and may evaluate their results inappropriately. To remedy this, active intelligence gathering must be pursued. This can be done through external consultants, having a truly local representative in the target market, or pushing the distributor to conduct and deliver periodic customer surveys.

Asset specificity refers to how much a principal has invested into tailoring product education, sales trainings, and procedures to the distributor's needs. By doing so, it will avoid goal divergence, and prevent opportunistic behavior or unplanned reactions by the distributor. On the contrary, ERBE has low asset specificity. It is predicted that ERBE would be thus be less motivated to supervise activities as they have invested less into the business relationship (Piercy, Cravens, & Morgan, 1998). Therefore, a need arises to involve the distributor better in ERBE's processes. The distributor needs to feel as if they are an important and valuable asset – and that the relationship cannot be re-deployable in another situation.

As highlighted previously, the South Korean Medical Device Market is a highly volatile market. This is due to many uncertainties caused by constant changes of the MFDS, and complexities in registration and reimbursement. Recall that within an outcome-based control, the distributor is assumed autonomous. Thus, there would be a large amount of environmental risk shifted towards the distributor in a highly volatile market – impeding optimal control. This suggests that there are

several explicit and implicit factors to account for when a distributor experiences problems e.g. sales decline. Holding a distributor responsible for sales without any idea what is happening and being unable to pinpoint the actual cause will result in decreased motivation for the distributor (de Mortanges & Vossen, 1999). Therefore, it is again important to actively gather intelligence about the market. By having a truly local representative or dedicated team, ERBE can constantly review the MFDS, registration and reimbursement systems. By realizing constraints in the emphasis ERBE can put on distributor results, ERBE is seen as a more knowledgeable partner. Overall, ERBE will be regarded as a more trustworthy partner of influence and control in the relationship.

In conclusion, better handling and enhancing distributor motivation relies on both selecting appropriate incentives and addressing inter-firm management issues such as limited market knowledge and distributor involvement.

5.5.3. Customer Relationships

As mentioned before, in the medical devices market in South Korea it is key to invest in customer relationships and interact with doctors.

Within customer relationships, there are four relevant dimensions: i) training, ii) involvement in R&D, iii) aftersales and iv) product endorsements. However, ERBE should engage in the following three:

1. Training: Sessions for doctors and medical students
2. Aftersales: Periodical survey for doctors; Assistance to hospitals' staff with reimbursement procedures
3. Product endorsement: On journals' articles, websites, commercial literature and at conferences.

The four dimensions of customer relationships emerged from the competitors' analysis and the interviews with experts. The competitor analysis showed that competitors engage with customers in multiple activities, however, there is a high degree of variance among them. Smaller players such as Bowa, Conmed and Bovie limit their involvement to participating in conferences. Medium-sized competitors such as ERBE and KLS Martin Group further invest in the customer relationship by providing doctors with online educational resources and organizing training

sessions. Finally, the industry giants, that is, Covidien, Olympus and Ethicon, further add local training facilities and involve doctors in their R&D processes.

During interviews, experts highlighted the importance of building a strong, long-lasting relationship with doctors and gatekeepers (i.e. those who have the formal power over procurement). These relationships are more fruitful when the salespeople are truly local. In addition, doctors stressed their need and their appreciation for training sessions. Finally, both industry experts and doctors recognized that the most effective way to gain market share is through direct and indirect product endorsement. Koreans, including doctors, tend to imitate celebrities (e.g. celebrity doctors) and their medical tools.

5.5.3.1. Training

Given the three possible target groups – medicine students, doctors and medical staff - ERBE should focus on doctors and medicine students. Training sessions would be organized both online and offline at third parties' facilities such as distributors'. This newly created occasion for interaction with students can have a very high potential because students are not yet locked in an existing relationship with medical devices or their distributors.

5.5.3.2. Involvement in R&D

Especially at large hospitals and hospital groups, doctors are often involved in the R&D process of medical devices. Such involvement greatly nurtures the relationships between doctors, hospitals and manufacturers. However, doing so at ERBE implies radically changing the R&D strategy. For this reason among several others, we do not advise to seek any involvement in R&D at the moment.

5.5.3.3. Aftersales

Currently, the distributor collects feedback from doctors. However, its use is not sound and information does not trickle up to ERBE. ERBE should co-design a survey with the distributors, assign responsibilities for analyzing the data collected and more importantly act on the feedback received. Product feedback cannot be directly implemented as the R&D processes happen at corporate level. Nonetheless, if several countries acknowledge the same needs the Singaporean organization may probably push the suggestion to the headquarters.

In addition, ERBE should work and should require distributors to smoothen as much as possible the reimbursement process for hospitals. Many interviewees emphasized that they often tend to choose products for which reimbursement is simple.

5.5.3.4. *Product Endorsement*

Product endorsement is the customer relationship tool with the highest potential. Since interviewees mentioned several times the fact that Koreans tend to follow celebrities in their field, ERBE should focus on identifying and convincing promising and famous doctors to use ERBE products (at least for a specific, limited use) and to make it public.

These promising doctors could then be included in ERBE's advertisements and could represent the company in congresses and conferences.

2.6. Concerns

There are two main concerns related to the recommendations proposed to ERBE. Firstly, the fact that the current distributor – Dong-A – holds ERBE products' licenses might represent an additional obstacle to changing distributor. The transition has to be gradual, smooth and previously agreed with Dong-A. Furthermore, the fact that ERBE would shift the general surgery business to another distributor might also cause friction and harm its relationship with Dong-A. ERBE has to be able to maintain a positive relationship with the distributor, since they would continue to market ERBE's gastroenterology products.

Another concern is related to a significant limitation felt during the course of the project. Due to not only language differences but also cultural and time differences, it became extremely challenging to gather both primary and secondary data. These difficulties caused not only limitation to the analysis but also sometimes delays in the project.

Besides, during the construction of the market sizing model, several assumptions had to be made. Although all the assumptions are reasonable and were both discussed with the company and confirmed with interviewees, the model might have to be adjusted if the market conditions change significantly.

3. REFLECTION ON LEARNING

3.1. Masters content applied

Throughout this project, several frameworks and areas of knowledge covered during my masters in management at Nova SBE proved to be useful. In fact, this project was the perfect opportunity to apply a wide range of knowledge acquired during the program to a real life situation.

During the market analysis stage, it was important to re-evaluate the attractiveness of the South Korean medical devices market. Although the company had assessed the attractiveness before entering the market, revenues were below forecasted and thus it was important to understand if the market conditions had changed. Applying the Porter's Five Forces framework covered during several Strategy courses allowed us to understand that the medical devices market is still profitable. Furthermore, with this framework, we were also able to assess the structural characteristics of the industry and how they affect profitability.

To understand ERBE's current situation a SWOT Analysis, framework studied during the Marketing Planning course, was used. This tool was extremely useful to understand the strengths that the company can deploy in order to accomplish its objectives and the obstacles that must be overcome.

In order to depict the appropriate entry mode for the South Korean medical devices market, content covered during the International Business course was extremely valuable. Although the company had already entered the South Korean market when the business project began, one of their requests was to analyze if selling through a distributor was still the right approach. Thus, the OLI Framework was applied (Dunning, 1988). This model states that in order to choose an entry mode, ownership, location and internalization advantages have to be assessed.

Ownership advantages are tangible or intangible resources owned by a firm which grant it a competitive advantage over its industry rivals. A company that doesn't have ownership advantages should not pursue international expansion. However, ERBE's R&D capabilities as well as the unique benefits provided by their products are ownership advantages that the company can deploy also in South Korea.

Secondly, internalization advantages also have to be assessed. If a company only possesses ownership advantages, then Licensing is the recommended entry mode. However, if a company

has both ownership and internalization advantages, Exports is the appropriate strategy. Internalization advantage exists when it is desirable for a firm to produce a good or a service itself rather than contracting with another firm. Analyzing ERBE's situation, one can see that the company should avoid sharing know-how and key capabilities with a local partner. Thus, there are internalization advantages in ERBE's case.

Location advantages refer to factors that affect the desirability of host country production relative to home country production. Factors such as low wages, better raw material availability or tax incentives sometimes make it favorable to produce in the host country. However, these factors are not relevant in South Korea. Furthermore, the "made in Germany" aspect is important in South Korea, and so the production should be kept in Germany.

If a company has all three advantages, Foreign Direct Investment is the recommended entry approach. However, as ERBE only has ownership and internalization advantages, Exports is the appropriate strategy in South Korea.

All in all, this project allowed for a deeper understanding of several topics covered during the Masters program, by applying these topics to a real business challenge.

3.2. New knowledge applied

Although I was able to apply several topics learnt during my Masters in this business project, I can certainly say it was also one of the most challenging projects due to the volume of new knowledge assimilation that this project required.

First of all, the industry where ERBE operates was mostly unknown to me. As it is a quite complex and specific market, in the initial stage of the project a considerable amount of time was dedicated to understand the industry and the products within this industry.

Another important learning of this project was on how to estimate the market potential through a market sizing model. In fact, one of the outcomes requested by the company was an estimation of the market size for the next few years. For the company, this model was especially important, not only to be sure that there was potential that justifies its presence in this market, but also because of the all the market data gathered throughout this process, which they were lacking. As

I had never been challenged to do such a model, most of the knowledge had to be acquired during the process. A top-down approach was adopted to estimate the market potential for each of the two segments: gastroenterology and general surgery. As such, several assumptions had to be adopted, mainly based on historical data, but also on data gathered during interviews. The fact that, throughout this process, the model was several times discussed with the company also had a positive impact on the accuracy of the results.

In addition, before this project, I had very limited knowledge on how to conduct expert interviews. The fact that the interviews were conducted with doctors and experts from South Korea represented an additional challenge, due to cultural and language differences. However, throughout the process our approach was refined and the response rate increased significantly. Firstly, it is important, especially in South Korea, to tailor the first contact as much as possible. More explicitly, besides stating the purpose of the interview, it is important to mention how the contact details were found and why she/her is important for the project. During the interview, it is important to formulate questions in a clear and neutral way, in order to avoid biased answers. As a last stage in this process, it is crucial to thank the interviewee and offer to share the project findings at the end.

Lastly, although I didn't have any course on Project Management, I believe that several project management techniques used during the course of this project were crucial for the final outcome. Since this project was significantly larger than most of the projects, these techniques became necessary to structure and organize the work flow. For instance, in the beginning of the project, a Gantt chart was created so that we would always keep track of our tasks, milestones and deadlines. Furthermore, besides the status meetings scheduled with our advisor, we also scheduled a weekly group meeting in which all members were present. These meetings, where we discussed progress and planned to-dos for the following days, proved to be very useful for the flow of the project.

3.3. Personal experience

This project was undoubtedly the most challenging project that I've been through so far, but at the same time also the most rewarding. Analyzing my contribution for the project, I can identify my main strengths as well as the weaknesses felt throughout the semester, which I will have to work on.

In terms of strengths, firstly I believe that my structured and logical thinking was valuable for this project. These skills were especially important in the beginning to structure the project as well as for the market sizing model. Actually, during the course of the project we had a mandatory feedback session where this was the main strength identified by my team members. In addition, my teamwork abilities gathered not only throughout my academic and professional experience but also during my sailing career proved to be very useful for this project. I always tried to listen to everyone's ideas and perspectives, incorporate it in a common solution and then split work in a way that it would match each team members' preferences. In terms of soft skills, I also believe that the fact that I always challenged our basic assumptions and first ideas lead to a better outcome in the end. Although sometimes this process was not easy, since it lead to prolonged discussions and extra workload, in the end all group members recognized that it improved the quality of our work. Lastly, my slide structuring and slide design competences acquired during my work experience were also important for this project. In fact, there was a team member who struggled in this part and always asked me to help him. Frequently, I had to re-do his slides so that it would become more visual and clear for the company.

Despite my strengths, I also felt some weaknesses during the course of this project. Firstly, I had little knowledge on the medical devices industry, which was an additional challenge in the beginning. Furthermore, since the company was based in Germany and some documents were available in German, the beginning of the project was especially difficult. However, in the end I felt that I understood most of the concepts related to this industry. Besides, as I am a very practical and structured person, I sometimes struggle to be patient when other team members deviate from the main focus or goal of the task. I sometimes try to change subject without explaining why I think that the previous discussion were not relevant. In the future, I need to be more patient, try to remain calm and explain my point view better.

3.4. Benefit of hindsight

Overall, I feel like our team was able to develop a project that will actually had to value to ERBE. In fact, during the final presentation, the managing director recognized that. On the one hand, we were able to confirm some ideas that the company already had prior to the project, by backing it up with the data gathered. On the other hand, we collected some new insights throughout the

project which will be valuable for the company in the future, such as the need to engage and interact with doctors in a more structured way.

Regarding the main parts of our project, I believe that the market sizing model and the distributor motivation were the parts where we were able to add the most value and that will be most useful parts for ERBE. The market sizing model contains relevant information that ERBE didn't have access to before, and can always be adjusted with new inputs easily, due to the way it was constructed. As for the distributor motivation, in my opinion, due to the scarce human resources available for managing the relationship with the distributor, there is a considerable room for improvement. Most of the issues discussed in this part had never been thought of by the company.

4. CONCLUSION

In conclusion, the extensive analysis conducted reveals that by adopting a multi-distributor approach, motivating their distributors appropriately, and involving their customers, ERBE can improve sales in South Korea. Given the current situation, it is recommended that ERBE stays with Dong-A in gastroenterology but switches to another distributor for general surgery. When considering how to motivate their distributors, however, ERBE must not only look towards appropriately implementing financial incentives but also address inter-firm management issues that are present. Lastly, customers should be better involved in dimensions of training, aftersales support and product endorsement. By considering these dimensions, it is highly likely that ERBE potentially improves towards better sales in South Korea.

5. REFERENCES

Banker, R. D., Lee, S.-Y., Potter, G., & Srinivasan, D. 1996. Contextual Analysis of Performance Impacts of Outcome-Based Incentive Compensation. In *Academy of Management*, 39(4), 920-948.

Business Project. 2015. *A Renovated Route-to-market strategy for ERBE in South Korea*

de Mortanges, C. P., & Vossen, J. 1999. Mechanisms to control the marketing activities of foreign distributors. *International Business Review*, 8, 75-97.

Demirdjian, Z. S. 1984. A Multidimensional Approach to Motivating Salespeople. In *Industrial Marketing Management*, 13, 25-32.

Dunning, John H. 1988. "Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach". In *Explaining International Production*, 13-40. London: Unwin Hyman.

ERBE Elektromedizin GmbH. 2014. *Business Plan*

Krafft, M. 1999. An Empirical Investigation of the Antecedents of Sales Force Control Systems. In *Journal of Marketing*, 63(3), 120-134.

Market line. 2014. *South Korea in-depth Market*

Oliver, R. L., & Anderson, E. 1994. An empirical test of the consequences of behavior- and outcome-based sales control systems. In *Journal of Marketing*, 58, 53-57.

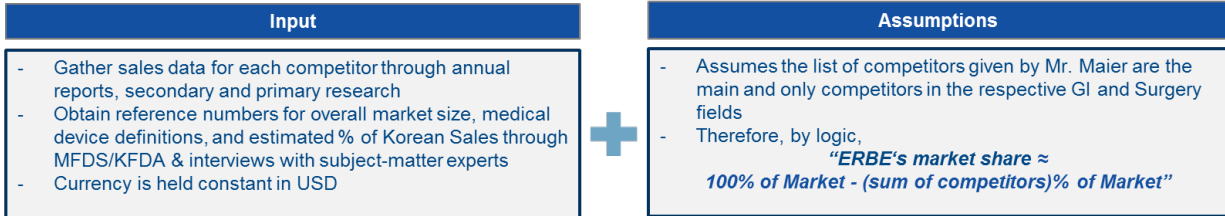
Piercy, N. F., Cravens, D. W., & Morgan, N. A. 1998. Salesforce performance and behaviour based management processes in business-to-business sales organizations. *European Journal of Marketing*, 32(2), 79-100.

6. APPENDIX

Appendix 1 – Market Sizing Model

3. Market Sizing Models

Based on the sales performance of ERBE’s primary competitors in South Korea, we can estimate the percentage share and value of the ERBE South Korean market.



Output

Gastroenterology						Metric		Value
	Olympus Medical (yen)	KLS Martin	Bowa			JPY-EUR exchange rate		0.007717
Total Sales	492,300,000,000.00	20,639,700.00	n.a			USD-EUR exchange rate		0.9234
GI-specific percentage	56%					KRW-EUR exchange rate		0.0008451
Net Sales for GI	273,966,000,000.00					JPY-USD exchange rate		0.0083
Total Net Sales (Dollars)	2,273,917,800.00							
Asia-Pacific percentage	14.20%							
Asia-Pacific Sales Estimate	322,896,327.60							
Estimated Korean Sales	19,373,779.66		7,570,000					
Surgery						Key Reference Numbers		
	Covidien/Medtronic	Olympus Medical (yen)	Ethicon/J&J	Conmed	Bovie	% of Korean Sales of Asia Pacific		6%
Total Sales	16,590,000,000.00	492,300,000,000.00	27,500,000,000.00	762,700,000.00	23,700,000.00	Total medical device market		3,900,000,000.00
Surgery-specific percentage	33.00%		44%	35%	37%	% of Medical Devices Imported		68%
Net Sales for Surgery	5,474,700,000.00	218,830,000,000.00	9,700,000,000.00	282,199,000.00	14,220,000.00	Imported Medical Devices Market		2,652,000,000.00
Net Sales for Surgery (Dollars)	5,474,700,000.00	1,816,289,000.00	9,700,000,000.00	282,199,000.00	14,220,000.00	Implement and Machinery		582,951,000.00
Asia-Pacific percentage	11%	14.20%	0.13%					
Asia Pacific sales estimate	602,217,000.00	257,913,038.00	12,610,000.00		7,250,000.00	Running Total of Competitor Sales		351,539,581.94
Estimated Korean Sales	36,133,020.00	15,474,782.28	228,508,000.00	37,230,000.00	7,250,000.00	Running % Total of Competitor Share		60.30%
						Estimated % Market Size for ERBE		39.70%
						Estimated Market Value for ERBE South Korea		231,411,418.06

Appendix 2- Scoring Method – The details in the total benefit calculation

KSF for a Distributor	Weight	Increase in Sales		Ability to Charge a higher fee		Total	Dong A GI	Dong A GS
Local Korean company with strong relationships to doctors	5	5	$(5*5)=25$	-3	$(5*-3)=-15$	10	8	3
Ability to discuss issues openly with the manufacturer	5	5	$(5*5)=25$	-3	$(5*-3)=-15$	10	7	3
Has a clear understanding of marketing and contacts pro-actively the manufacturer with new ideas to boost sales	5	5	$(5*5)=25$	-3	$(5*-3)=-15$	10	5	3
Is willing to devote a considerable amount of time to understand and get training on ERBE products	3	4	$(3*4)=12$	-2	$(3*-2)=-6$	6	4	2
Has a good personalized CRM system	1	3	$(1*3)=3$	-2	$(1*-2)=-2$	1	0,5	0
Provides an excellent after-sales service	3	2	$(3*2)=6$	-1	$(3*-1)=-3$	3	2	1
Experience in Gastroenterology	2	2	$(2*2)=4$	-1	$(2*-1)=-2$	2	1	N/A
Experience in General Surgery	2	3	$(2*3)=6$	-1	$(3*-1)=-3$	3	N/A	2
Small Size	2	2	$(2*2)=4$	-1	$(2*-1)=-2$	2	1	1
Has a team dedicated to reimbursement and understands the process	5	4	$(5*4)=20$	-3	$(5*-3)=-15$	5	3	2

Appendix 3 – Financial Motivators

High Feasibility		Description	Impact
	Profit Sharing/ Commission	<ul style="list-style-type: none"> ▶ Rewards of high perceived value to distributor e.g. cash, travel, merchandise, plaques etc. 	
	Revised Estimates	<ul style="list-style-type: none"> ▶ Annual targets with two or more checkpoints ▶ Periodical reporting to address issues ▶ Formal process to transfer knowledge ▶ "Stepping-stones" for gradual improvement 	
	Sales Trainings	<ul style="list-style-type: none"> ▶ Annual platform for sales-stars to share success stories ▶ Physical involvement with principal company increases ▶ Invite everyone, but award performers who meet targets 	
	Direct Comparisons	<ul style="list-style-type: none"> ▶ Publish sales ranking of all distributors to instill competition ▶ Use comparable KPI e.g. % above agreed targets 	
	Vertical Integration of Sales Team	<ul style="list-style-type: none"> ▶ Recruit sales-stars from distributor into principal company for a larger role ▶ Selection to become regional representatives 	
	Low Feasibility		○ = Low, ● = High