



UPS Supply Chain SolutionsSM

case study

Medical Manufacturer Opts to Leverage Value of Distributors

A leading manufacturer of medical devices and supplies was considering moving to a direct distribution model for its products. The company brought in UPS Supply Chain Solutions' consulting services team to analyze what such a move would cost and how it would impact the company's business in the long term.

Client Challenge

For decades, the manufacturer has relied on approximately 200 distributors to supply its medical products to 15,000 hospitals and physicians' offices throughout the United States. The distributors marked up the prices of the manufacturer's products significantly. The manufacturer wanted to know if a direct distribution model would improve its own revenue while also providing its customers with better value.

The manufacturer asked UPS Supply Chain Solutions to conduct a comprehensive analysis. The consultants determined the immediate internal costs of moving to a direct model of distribution as well as the potential impact on the external business environment. The consultants also developed process models to help the manufacturer clearly weigh the options.

Our Solution

UPS Supply Chain Solutions first interviewed the end user—key personnel at hospitals and doctors' offices—to find out what they require from distributors. The name of the manufacturer that hired UPS Supply Chain Solutions remained confidential.

These interviews revealed that the distributors perform many value-added services for the end users. One of the most important of these services is vendor-managed inventory. The distributor representatives actually go into the stockrooms of hospitals and determine what products the hospitals need to replenish. The distributor representatives then write purchase orders for these products.

Medical Device Manufacturing

GEOGRAPHIC AREA SERVED

United States

CHALLENGE

Determine the potential risks and benefits for a manufacturer of medical devices to eliminate its distributors and use a direct model to sell its products.

SOLUTION

An analysis concluded that going to a direct model would be prohibitively expensive and the manufacturer stood to gain more by improving its relationships with distributors.

RESULTS

- Gained new insights into role of distributors
- Opened door to a win-win relationship with distributors
- Avoided high costs of developing internal service capabilities
- Prevented generating a harsh, competitive landscape

UPS Supply Chain Solutions analyzed what it would cost the manufacturer to develop the internal capabilities and processes to provide such value-added services. The analysis showed that the investment would be prohibitively high—both in terms of money and time—to develop personalized customer services for 15,000 end users.

Next, UPS Supply Chain Solutions forecast the type of business environment that would likely result if the manufacturer went to a direct distribution model. The consultants determined that most of the distributors enjoy close, long-standing relationships with the hospitals and physicians' offices that they serve. According to the analysis, the manufacturer would likely find it difficult to navigate the competitive landscape generated by a direct distribution model. This heated competition would come at a particularly difficult time, since the manufacturer plans to phase out its current product lines and replace them with advanced versions within the next few years.

UPS Supply Chain Solutions advised the manufacturer that it had another option to try to gain revenue other than switching to a direct model. Instead, the manufacturer could focus on improving its relationships with distributors.

The manufacturer chose the latter. UPS Supply Chain Solutions provided the company with the critical information that it needed to make this decision.

For years, the manufacturer had a confrontational relationship with its distributors, viewing them more as an impediment to their business than a valuable asset. The manufacturer gained a new appreciation for the important behind-the-scenes role that the distributors play with customers. The manufacturer realized that by strengthening its relationships with distributors it could ultimately improve its revenue more than by using a direct distribution model.

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For more information please contact us
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