Appendix 5.8.1
Summary of Indirect Sales and Distribution Models

	Sale Process	Distribution Process	Advantages	Disadvantages
National Distributors (e.g., Owens Minor, Cardinal)	Distributors employ a sales force that personally calls on purchasing teams to sell products from multiple companies. Purchasers place orders through call centers or automated systems managed by the distributors.	Products are directly delivered by the distributors. Distributors often manage inventory on behalf of companies they represent, delivering product "just in time" from a network of warehouses.	• Provides companies with a relatively low-cost mechanism for selling and distributing a product. • May help providers manage inventory and provide other value-added services (e.g., data tracking) to manufacturers.	• Distributor sales representatives lack detailed knowledge about products and their relative merits. • Companies have limited control over how representatives present their products to the buyers. • Representatives do not have as strong an incentive to sell any particular product.
Specialized Distributors (e.g., InVivo Surgical)	With a specialized distribution model, a company gains access to elite sales representative s with strong specialty knowledge and physician relationships. These reps manage all aspects of an intensive sales process. Distributors	Products are ordered by the buyer and hand- delivered by the sales representatives of the specialty distributor or sent via courier.	• Provides companies with access to high-quality sales representatives with strong, established physician relationships. • Reps have more specialized knowledge in the field. • Less financial risk than building an internal sales force since the	• Company has slightly more (but still limited) control over how reps present their products to the buyer. • Because distributors "own" the customer, companies lose negotiating power over commissions and discounts. • If a change in distributor is necessary, company loses

	Sale Process	Distribution Process	Advantages	Disadvantages
	may take ownership of products (acting as resellers) or sell on commission (as agents).		company carrier less overhead and lower SG&A costs. • Product may be packaged by specialty distributors as part of a complete line of products, making it easier for buyers to integrate something new into their practice.	all relationships since they are owned by the third party. • Companies also have limited access to direct customer feedback and upward integration to drive future innovation (although useful feedback can sometimes be collected from the representatives). • Companies realizes less profit because it must share its margins.
Third-Party Partners (e.g., Lifescan's agreement with Medtronic)	Original manufacturers license product concepts or manufactured products to third-party companies or manufacturers for marketing and sales. The larger companies generally handle all aspects of sales operations and	Products are ordered via customer service departments or through sales representatives. Delivery is managed in accordance with the practices of the third-party manufacturers. (hand delivery, courier, and/or consignment). Products may be transferred to third parties	• Provides companies with access to high-quality, well-integrated, potentially large sales force with strong provider relationships. • Third-party manufacturers typically have strong, established presence in market and substantial leverage with buyers. • Companies	• Companies have little or no control over how third-party reps present products to buyers and how products are prioritized in their overall product portfolios. • Long-term viability of companies is put at risk if third-party proves to be ineffective at selling or distributing its product. • Companies have

	Sale Process	Distribution Process	Advantages	Disadvantages
	marketing, as though the products were their own. Original manufacturers receive funding during development and ongoing fees or royalties post-launch.	before shipment to customer, or may ship directly from original manufacturers.	avoid costs and risks of building internal sales force. • Companies can benefit from funding from agreements to aid product development.	almost no direct access to buyers to develop relationships and/or sales experience that can be leveraged for future product sales. • Breakups can be complicated and may negatively affect the business and its customers.

