|  |  |
| --- | --- |
|  |  |

9B17M006

LEADER HEALTHCARE: DECIDING ON A GROWTH STRATEGY

Sonal Singh and Meeta Dasgupta wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

*This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e)* [*cases@ivey.ca*](mailto:cases@ivey.ca)*;* [*www.iveycases.com*](http://www.iveycases.com)*.*

Copyright © 2017, Management Development Institute Gurgaon and Richard Ivey School of Business Foundation Version: 2017-05-30

In July 2016, Bharat Sachdev, the director of business development of Leader Healthcare India (LHC), was driving back home from his office at Bhikaji Cama Place, New Delhi, wondering what had happened at the management meeting in the office that morning. His firm’s strategy to expand into the south of India had failed once again. Management had decided to close its operations in the Bengaluru region of Southern India. Sachdev, however, was determined to grow his firm, as LHC’s new 24/7 post-sales service initiative could be launched only when introduced in a large enough market. LHC had tried its hand at geographical market expansion but saw no success. Sachdev began to ask himself these questions: Why were his expansion strategies not successful? Were there other strategies he could use to expand his business?

**COMPANY BACKGROUND**

LHC, a medical device distributor, was founded in 2011 in New Delhi, the capital of India, by Sarvadeep Sachdev, whose last major assignment was with General Electric, the second largest player in the U.S. medical devices industry.[[1]](#footnote-1) Soon, he was joined by his son Bharat Sachdev, who had recently returned after completing his MBA from a reputable university in Australia.

LHC provided medical devices for the hospital, emergency, home, and specialist environments in India.[[2]](#footnote-2) The firm was primarily a distributor of imported surgical and diagnostic equipment manufactured in the United States for aesthetics and respiratory purposes.[[3]](#footnote-3) The company’s chief activities included distribution, marketing, sales, post-sales support in the form of training and consulting, and servicing of medical equipment. The firm was a subsidiary of the Leader Healthcare group, founded in 2009 and headquartered in Dubai. The Leader Healthcare group was a specialist supplier of a wide range of medical device solutions for use in a variety of healthcare areas: emergency and resuscitation; ophthalmology; spa and wellness; neurology; pulmonology; general medicine; ear, nose, and throat; general surgery; dermatology; critical care; operating rooms; medical simulation; education; physiotherapy and rehabilitation; radiology; respiratory; home healthcare; and smart information and communication technology infrastructure in the Middle East.

The company culture and management philosophy at LHC were predominantly focussed on quality performance in every aspect of its business to improve the quality of patients’ lives.

The Medical Devices Industry

The Indian medical devices industry was a small yet fast-growing segment of the Indian healthcare industry. It was valued at US$4.9 billion in 2015,[[4]](#footnote-4) and had grown at a compound annual growth rate (CAGR) of 17 per cent over the last five years. The industry was further expected to grow at a CAGR of 15 per cent.[[5]](#footnote-5) The industry was gradually becoming critical because of the increasing availability of health insurance in India, continued customer demand for improved healthcare services, and an aging population.[[6]](#footnote-6)

Cardiovascular disorders, cancer, diabetes, ophthalmology, and gastroenterology disorders were the major diseases in the country,[[7]](#footnote-7) with ophthalmology devices having the largest market share. The domestic industry was highly fragmented and dominated by imported medical devices, with 70 per cent of its medical devices and equipment being outsourced from other countries, particularly from the United States. This was an industry where requirement for a skilled workforce was high.[[8]](#footnote-8)

The Respiratory and Aesthetics medical device segments

Respiratory Segment

The global respiratory therapeutics market was roughly $24.5 billion in 2014. It was forecast to be the fastest-growing segment during the period 2015–2020, growing at a CAGR of 8.7 per cent.[[9]](#footnote-9) India had the world’s largest share of tuberculosis patients, and one out of five deaths was considered to be due to respiratory diseases. Chronic obstructive pulmonary disease, pneumonia, and asthma were the other major respiratory diseases suffocating the Indian population.[[10]](#footnote-10) The respiratory devices market was divided into therapeutic devices, monitoring devices, diagnostic devices, consumables, and accessories. There existed two different types of end users in the segment: hospitals and home care.[[11]](#footnote-11)

Aesthetics Segment

India was relatively new to the aesthetic medical devices market. However, this segment was expected to have the maximum CAGR of 18.3 per cent due to a huge demand for cosmetic procedures from 2015–2019, with the global market expected to grow to $12,581.9 million at a CAGR of 10.8 per cent from 2015–2020.[[12]](#footnote-12) Growing medical tourism, the increasing favourability of India for cosmetic surgery, a growing obese population that needed body contouring treatments due to bariatric surgeries, and an expanding urban middle-class population were the major factors contributing to the expected growth in demand.

The aesthetic medical devices market was categorized into laser devices, dermal fillers, and neurotoxins—with laser devices holding the largest market share in the domestic market. The majority of treatments were for body-shaping, contouring, and skin tightening purposes. The laser and energy devices market was expected to reach $56.65 million by 2019.[[13]](#footnote-13) As in the entire medical device industry, the Indian aesthetic devices industry was also highly dominated by imported devices.

These imports were obtained from manufacturers such as Lumenis, Alma Lasers, Celeste (Laseroptek), Cynosure Inc., and many others from the United States and Europe. In 2014, Cynosure Inc., Syneron Medical, Solta Medical, Zeltiq Aesthetics Inc., Lumenis, and PhotoMedex, Inc. were the leaders of the global medical aesthetics laser and energy devices market.17 These manufacturers either had Indian subsidiaries or tie-ins with Indian distributors to sell their products. Swift entry of low-cost device manufacturers from China and South Korea had intensified the competition in the market and made it more diversified too.[[14]](#footnote-14)

Importing at Leader healthcare (LHC) India

LHC India had been a distributor of imported medical devices from the beginning. In the respiratory business, it distributed devices of Caire, Inc., Electromed, Inc., and Vortran Medical. In the aesthetics business, it was an authorized distributor of Cynosure Inc. (Palomar Icon and ConBio), Ellman International Inc., and Edge Systems LLC (HydraFacial MD). LHC took up only imported devices for distribution because of the firm’s commitment to quality performance.

The U.S. manufacturers LHC imported from had high-quality, high-end, and high-priced devices. This further helped LHC to take the lead because of fewer marketing requirements for such well-known high-quality U.S. brands. Sachdev took pride in how far the firm had come in the last five years through continuous efforts to train its personnel to acquire the technical skills required to deal with such top-quality devices and build up the reputation needed for this. In five years, LHC India had also developed specialized and technical skills, which differentiated them from dealers of other low-cost, low-quality devices.

While importing from the United States helped LHC in quality aspects, it also created some significant challenges in its business. One major challenge was the continuous dollar exchange rate fluctuations, which often resulted in substantial losses for LHC because its customers were charged fixed rates, which meant LHC could not change rates as dollar exchange rates changed.

Another important challenge was the customs-related issues. Often, the customs office would take too long to clear the imported products, which led to multiple problems such as delayed deliveries, dissatisfied clients, and damaged products. Damage to products was primarily seen in one of LHC’s popular aesthetics segment products called HydraFacial MD. Frequent and unpredictable changes in customs duty rates created further trouble.

Revenue Generation at LHC India

LHC generated revenue by selling and renting out a wide range of imported devices. Its product line was vast enough that sometimes Sachdev doubted if the firm was doing full justice to it or if it had taken on too much. Besides that, its rental business was possible only in regions where the company had a direct presence rather than an indirect presence through distributors.

In the aesthetics business, LHC’s customers were other businesses such as sub-distributors, hospitals, and clinics. The HydraFacial MD product was the exception: it was also sold to individual end-consumers. In the respiratory business, customers were both other businesses and individual end-consumers. LHC primarily targeted customers who wanted quality performance, with little regard for affordable prices. Due to the difference in nature of usage of respiratory and aesthetics devices, the number of respiratory device customers always formed a larger percentage of the company’s customer base (see Exhibit 1). LHC also had a different online portal—respirent.com—dedicated to its respiratory business.

Generating revenue, however, was not easy. LHC was supposed to do the marketing for all the imported devices in its product line. Marketing was critical because its foreign manufacturers made no contributions in this area. While LHC targeted only clients who demanded quality and who almost always knew that the products LHC sold were only number one brands, buyers still had to understand these products and be convinced that they were number one brands; they needed to know why they should buy from a number one brand company only and not from other low-price competitors.

As far as expenses were concerned, however, marketing activities were not a primary cost driver. The firm’s travelling costs (of sales agents), salary expenses, and monthly rental for the physical office were the key expenses, contributing approximately 86 per cent of the firm’s total expenditure (see Exhibit 2).

Delivery and After-sales Support

Delays in delivery were a typical operational-level challenge the firm dealt with frequently. Long delays in this industry were sometimes unforgivable and often a major concern for the customers.

After-sales support was also a critical aspect of this business. Providing after-sales support in the aesthetics devices business was relatively easy and less critical compared to providing support in the respiratory devices business. For this reason and because no other player did it, LHC had decided to start a 24/7 customer support service for its respiratory business.

Sachdev and his team still had to decide on a marketing strategy for this new service. They thought they could either market directly to customers or reach customers through their distributor network. At the time, LHC attended medical conferences, participated in exhibitions, and used digital marketing campaigns as part of its marketing initiatives. Sachdev wondered what route would be best for introducing the service to the market. Should LHC have launched first in one specific region and then have taken it further, or should the firm have gone all out in all the regions at the same time? A larger customer base would have increased the success chances of the service.

While the pilot test for the new 24/7 service turned out to be a success, LHC also received many inquiries from customers of other dealers and from those using other companies’ medical devices. Sachdev was not sure if it was an opportunity or an obstacle. However, one thing became clear to Sachdev and his team: the new service launch would be viable and successful only with a large customer base that would both need and be aware of such a service.

Competitive Scenario

LHC primarily faced competition from other medical device manufacturers who manufactured and sold directly in the same regions as LHC. Some of these key competitors were Taurus Healthcare Ltd. and The GoodCare Group in the respiratory segment and Derma India in the aesthetics segment. These manufacturers, unlike LHC, did not have to deal with customs, regulatory, and exchange rate issues, which were major considerations for LHC (see Exhibit 3).

Additionally, being low-cost players allowed these competitors to generate larger volumes of sales and also gave them an upper hand in government tenders for selling bulk devices to the Indian army or other government organizations. Sachdev sometimes wondered whether his firm was losing out on too many opportunities because of its policy of dealing only with high-end U.S. brand devices.

Market Presence

LHC sold its aesthetics devices all across the country irrespective of location. The aesthetics business had a small niche market of its own, which meant that serving the whole nation was the only profitable option without any further segmenting. However, the respiratory business was restricted to regions where LHC had a direct physical presence or an indirect presence through subdistributors. Its respiratory business was directly and strongly present in Delhi and Mumbai, and it had an indirect physical presence in Faridabad, Hyderabad, and Kolkata (see Exhibit 4).

Because respiratory devices were typically low-value items, travelling to different regions to market or sell these specific devices was not feasible, especially considering the way high-value aesthetics devices were being sold. Additionally, respiratory devices needed to be close to the customers for emergency situations. Nevertheless, the demand for respiratory devices came from all parts of the country even without any major marketing efforts. This was possible because people were already aware of the devices and U.S. manufacturers. According to Sachdev, “Our respiratory devices are what iPhones are in the mobile phone handsets market. The customers that come to us are those who do not want any compromise on product quality. After all, it is a lifesaving product.”

LHC did not depend much on the distributor channel because it wanted to maintain its high-quality service standards and did not want to risk its reputation or the U.S. brands’ reputation by working with just any distributor. Another factor was lack of loyalty from distributors because they also sold the Chinese-manufactured low-priced, low-quality devices, and they naturally preferred whatever was easier to sell. Consequently, in regions like Bengaluru, LHC had only a few exclusive distributors who had the required expertise, know-how, and service capability—all essential factors needed for selling those top-quality medical devices.

While considering market expansion strategies for the respiratory business, Sachdev thought that LHC’s direct presence with such an extensive product line to market and sell would expand its business-to-customer business and turn out to be profitable in any scenario. However, he was not sure of a viable way to expand to new markets with such a massive product line, where some products were well established and some were not.

A major reason LHC’s previous direct expansion efforts had failed was the lack of supervisory personnel in the new regions. This led to weak quality control in the company’s overall operations in the newly explored markets. By then, Sachdev and his team had realized that if the company had to expand its direct presence to achieve any fruitful results out of the expansion, it would have to replicate its entire setup including personnel, service support, and infrastructure. The capital and the risk involved were high, and Sachdev wanted to find some way to mitigate the high expansion risks.

In the last meeting, the presentation made by his business development team assured Sachdev of more business due to a direct presence in the respiratory segment. However, with a direct presence, LHC also did not want any conflicts of interest with the company’s exclusive channel partners. “What can be the right way to approach this?” thought Sachdev. He realized that he had been driving around and around past his home for the last half hour. But now, it was time to make a move—not just to go home, but also to proceed with LHC’s renewed market expansion strategies.

Exhibit 1: Customer distribution

|  |  |  |  |
| --- | --- | --- | --- |
| **Financial Year** | **Number of Customers in Aesthetics** | **Number of Customers in Respiratory** | **Total Customers** |
| 2012/13 | 70 | 280 | 350 |
| 2013/14 | 80 | 330 | 410 |
| 2014/15 | 90 | 380 | 470 |

Source: Company documents.

exhibit 2: Trading, PROFIT, and LOSS ACCOUNT for LHC INDIA (US$)

|  |  |  |
| --- | --- | --- |
|  | 2014–15 | 2015–16 |
| Sales & other receipts | 558,000 | 518,000 |
| Direct income | 8,890 | 21,470 |
| Closing stock | 219,000 | 233,000 |
| Total | 786,000 | 772,000 |
| Less: opening stock | 179,000 | 219,000 |
| Purchases | 429,000 | 399,000 |
| Direct expenses | 2,170 | 890 |
| Gross profit | 175,000 | 153,000 |
| Add: indirect income | 4,420 | 4,310 |
| Total | 179,300 | 158,000 |
| Less: administrative expenses | 106,000 | 110,000 |
| Selling & distribution expenses | 35,110 | 7,780 |
| Financial expenses | 17,720 | 20,000 |
| Net profit transfer to capital account | 19,950 | 20,000 |

Source: Company documents.

Exhibit 3: Comparison of companies

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Leader Health Care** | **Derma India** | **Taurus Health Care** |
| Segment | Respiratory, dermatology | Dermatology | Respiratory |
| Business type | Import, marketing, sales, service | Manufacture, marketing, sales, export, service | Manufacture, marketing, sales, service |
| Medical & product knowledge (experience/age) | > 4 years | 16 years | 21 years |
| Market presence | Delhi, Faridabad, Hyderabad, Mumbai, Kolkata | All over India; some international regions | All over India; some international regions |
| Customer support/service | Yes | Yes | Yes |
| Resource strength | 11–25 employees | 51–100 employees | 150 employees |
| Emphasis/key strength | Quality performance, best-in-class products of U.S. manufacturers | Value stakeholder relationships, affordable pricing | Local technologies, affordable pricing |
| Product line strength | > 100 products | 55 products | 6 products |

Source: Created by the authors based on Leader Healthcare India home page, accessed August 17, 2016, <http://leaderhealthcare.in>; “Welcome to Dermaindia,” Dermaindia, 2015, accessed August 24, 2016, www.dermaindia.com; “Company Factsheet,” Derma India, accessed August 24, 2016, www.indiamart.com/dermaindia/; “Company Factsheet,” Indiamart: Leader Healthcare India, 2016, accessed August 24, 2016, www.indiamart.com/leader-healthcare-india/; Taurus Healthcare home page, accessed August 27, 2016, www.taurushealthcare.co.in; “Company Factsheet,” Indiamart: Taurus Healthcare Private Limited, 2016, accessed August 27, 2016, www.indiamart.com/taurus-healthcare/.

Exhibit 4: Market Conditions in select regions

|  |  |
| --- | --- |
| **City in India** | **Medical Device Market Conditions** |
| Delhi (North) | * Major market player type—Medical technology innovators * Region strength—Proximity to the central government |
| Haryana (North) | * Major market player type—Low-end consumables, dental equipment * Region strength—Availability of low-cost unskilled labour |
| Jarat (West) | * Major market player type—Stent manufacturing * Region strength—Laser-cutting technology used in diamond cutting modified in India to manufacture stents |
| Karnataka (South) | * Major market player type—Insulin pens, medical information technology, cardiac stents and implants, polymerase chain reaction (PCR) machines * Region strength—Highly-skilled labour, engineers, and technocrats |
| Tamil Nadu (South) | * Major market player type—Diagnostics, critical life- support systems, ophthalmology * Region strength—Highly-skilled labour, engineers, and technocrats |

Source: “The Medical Device Industry in India,” SKP Business Consulting, 2016, accessed August 28, 2016, www.skpgroup.com/data/resource/skp\_the\_medical\_device\_industry\_in\_india\_.pdf.

1. Sarah Collins, “A Must-Read Overview of the Medical Device Industry,” Market Realist, November 19, 2015, accessed July 11, 2016, http://marketrealist.com/2015/11/must-read-overview-medical-device-industry/. [↑](#footnote-ref-1)
2. “About Us,” Leader Healthcare, accessed July 11, 2016, http://leaderhealthcare.in/about-us/. [↑](#footnote-ref-2)
3. “Respiratory Devices Market: Global Industry Analysis and Opportunity Assessment 2015–2025,” Future Market Insights, accessed July 14, 2016, www.futuremarketinsights.com/reports/respiratory-devices-market. [↑](#footnote-ref-3)
4. All currency amounts are in US$ unless otherwise specified. [↑](#footnote-ref-4)
5. “The Medical Device Industry in India: Therapeutic Areas,” SKP Business Consulting, accessed July 11, 2016, www.skpgroup.com/data/resource/skp\_the\_medical\_device\_industry\_in\_india\_therapeutic\_areas\_.pdf. [↑](#footnote-ref-5)
6. PTI, “Indian Medical Device Industry Can Grow to $7 Billion by 2016: USIBC,” The Economic Times: Healthcare, July 25, 2015, accessed July 12, 2016, http://economictimes.indiatimes.com/industry/healthcare/biotech/healthcare/indian-medical-device-industry-can-grow-to-7-billion-by-2016-usibc/articleshow/48213378.cms; “India’s Medical Devices Market Will Hit $17.6 Billion by 2020, says GlobalData,” GlobalData: Healthcare, February 16, 2016, accessed July 14, 2016, https://healthcare.globaldata.com/media-center/press-releases/medical-devices/indias-medical-devices-market-will-hit-176-billion-by-2020-says-globaldata. [↑](#footnote-ref-6)
7. “Viewpoint: Indian Medical Device Industry—Current State & Opportunities for Growth,” Infosys Consulting, 2015, accessed July 12, 2016, www.infosys.com/consulting/insights/Documents/indian-medical-device-industry.pdf. [↑](#footnote-ref-7)
8. “The Medical Device Industry in India,” SKP Business Consulting, 2016, accessed July 14, 2016, www.skpgroup.com/data/resource/skp\_the\_medical\_device\_industry\_in\_india\_.pdf; Dezan Shira and Associates, “Choosing an Investment Model for India’s Medical Devices Industry,” India Briefing, January 23, 2015, accessed July 14, 2016, www.india-briefing.com/news/indias-medical-devices-industry-9848.html/; Pritam Datta, Indranil Mukhopadhyay, Sakthivel Selvaraj, “Medical Devices Manufacturing Industry in India: Market Structure, Import Intensity and Regulatory Mechanisms,” ISID-PHFI Collaborative Research Programme, March 2013, accessed July 14, 2016, http://isidev.nic.in/pdf/WP155.pdf. [↑](#footnote-ref-8)
9. “Top 10 Medical Device Technologies Market to $428.97B by 2020,” Today’s Medical Developments, December 11, 2015, accessed July 14, 2015, www.todaysmedicaldevelopments.com/article/medical-device-technology-top-10-markets-to-grow-2020-121115/. [↑](#footnote-ref-9)
10. “Respiratory Care Devices in India: Overview,” Amritt Ventures, accessed July 14, 2016, www.amritt.com/industries/medical-device-india/respiratory-care-devices-in-india/. [↑](#footnote-ref-10)
11. “Respiratory Care Devices Market Worth 21.9 Billion USD by 2020,” Markets and Markets, accessed July 14, 2016, www.marketsandmarkets.com/PressReleases/respiratory-care-devices.asp. [↑](#footnote-ref-11)
12. “Global Market for Medical Aesthetic Devices to Reach $6.2 Billion by 2019; Shift in Cultural Outlook Rapidly Changing the Industry,” BCC Research, December 12, 2014, accessed July 14, 2016, www.bccresearch.com/pressroom/hlc/global-market-for-medical-aesthetic-devices-to-reach-$6.2-billion-by-2019; “Medical Aesthetics Market worth $12,581.9 Million by 2020,” Markets and Markets, accessed August 22, 2016, www.marketsandmarkets.com/PressReleases/medical-aesthetics.asp. [↑](#footnote-ref-12)
13. Ken Research Pvt. Ltd., “India Aesthetic Lasers and Energy Devices Market Is Expected to Reach INR 3.8 Billion by 2019—Ken Research,” My News Desk, March 2, 2015, accessed July 14, 2016, www.mynewsdesk.com/in/pressreleases/india-aesthetic-lasers-and-energy-devices-market-is-expected-to-reach-inr-3-8-billion-by-2019-ken-research-1123952. [↑](#footnote-ref-13)
14. “India Aesthetic Lasers and Energy Devices Market,” Ken Research, accessed July 14, 2016, www.news.kenresearch.com/post/112686217413/india-aesthetic-lasers-devices-market; “Medical Aesthetics Market to See 10.8% CAGR to 2020,” PR Newswire, August 24, 2015, accessed July 14, 2016, www.prnewswire.co.in/news-releases/medical-aesthetics-market-to-see-108-cagr-to-2020-522711791.html. [↑](#footnote-ref-14)