

Through what channels can you get medical and laboratory devices onto the European market?

Exporting through an intermediary such as a distributor or importer is still the main channel for exporters from developing countries. Another interesting option is to subcontract with a European producer. A new trend, however, is for end-users such as hospitals to purchase directly from manufacturers from developing countries. This trend is an interesting opportunity, not only because the majority of European demand for medical devices comes from private and public hospitals, but also because order volumes can be substantial.

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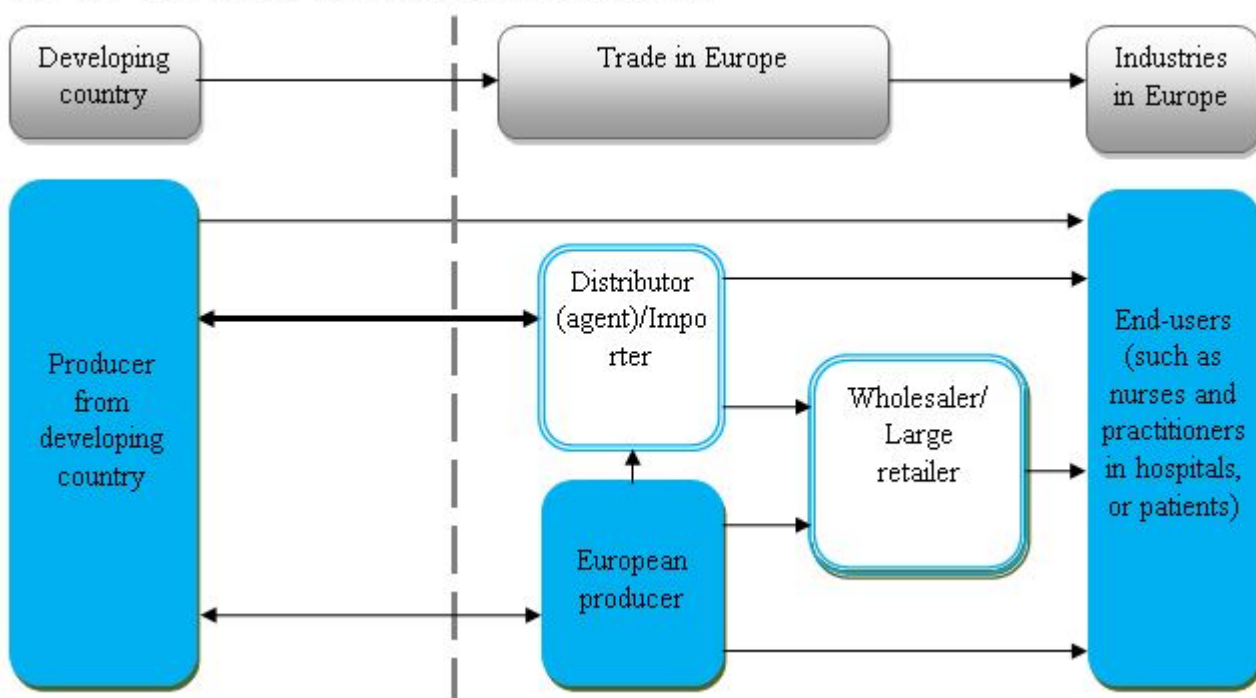
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1. Market channels

Most medical equipment imported into Europe is either sold directly through a local subsidiary with a field sales force, through medical distributors with an established distribution network, or through appointed agents or manufacturer representatives. Local subsidiaries are usually established by international medical devices brands. Local subsidiaries are not very often used by suppliers from developing countries, because they involve a lot of costs including standards and certifications, warehousing, maintenance, accessibility, local marketing and sales, and salaries for local staff.

Trade channels (shown in figure 1 below) are generally the same across Europe, with some preferences per country but no major differences between the intramural and extramural market. For instance, in the United Kingdom, the National Health Service (NHS) purchases medical devices and supplies them to hospitals. By contrast, in Romania, exporters from developing countries can do business directly with specific representatives of hospitals.

Figure 1: Trade structure for medical devices in Europe



Distributor/importer

Distributors and importers represent the main link between exporters from developing countries and customers in Europe. Nowadays, most distributors in Europe are also importers. A key advantage of working with them is that they are usually highly knowledgeable about the national health-care system. Moreover, their product specialists are experts on the medical devices that they sell. When trading with distributors/importers, exporters from developing countries can supply the product under their own brand or as private-label products.

The advantage in working with distributors is that they take care of, and assist exporters with, compliance with European market standards. For example, product information and technical data sheets must be provided in the local language. Distributors assist exporters in providing operation and instruction manuals in the local language to ensure proper understanding and usage of equipment, as well as in providing reliable after-sales servicing and product support.

There is a high level of cooperation and communication among distributors/importers and medical specialists, user groups and technicians responsible for maintaining medical equipment. Exporters from developing countries should make sure that they are knowledgeable about their product. In this way, exporters from developing countries can sufficiently support hospital personnel in how to use the equipment in the best and safest way. If necessary, training should be provided.

While some distributors specialise in one specific product type, others trade in a wide range of products. Both categories are interesting for exporters from developing countries. Usually, distributors in Europe prefer to offer complete product lines while minimising the number of producers/suppliers from which they source. For this reason, exporters from developing countries are advised to look for partners who offer complementary products or product ranges. If exporters from developing countries can offer only one specific product or a limited range of products, they are advised to cooperate with others to make their product offering complete.

In hospitals, purchasing departments or technical committees consisting of medical specialists and purchasers are generally responsible for the procurement of medical devices. In both cases, specialists can influence purchasing decisions to a large extent. In practice, distributors will try to influence specialists in order to get their products sold. Exporters from developing countries can get in touch with the specialists themselves by visiting relevant conferences and seminars.

European producer (subcontracting or contract manufacturing)

A European producer might subcontract the production of excess volume, or of products that they are not specialised in, to other producers/factories, sometimes in developing countries. Producers from developing countries could be asked to produce the finished product or perform the final assembly.

It is important to note that requirements in a subcontracting relationship are rather high. As a subcontractor, you must be able to:

- produce according to the contractor's quality standards;
- meet deadlines;
- communicate effectively with the contractor.

In addition, some European producers might hesitate to subcontract to developing countries, as some countries lack a legal system that protects intellectual property rights. This situation particularly applies to China but also to India. Subcontracting could result in a long-term business relationship providing frequent orders; however, the margins might be smaller.

Wholesaler/Large retailer

Some types of products, such as orthopaedic appliances and artificial parts of the body (for instance, hearing aids) can be sold through distributors to wholesalers and large retail chains before reaching end-users. These wholesalers and large retail chains will provide a first-line service to end customers. However, for product-related issues such as malfunctions and damages, they will call on the distributor.

End-user

The final option is to supply directly to end-users. Exporters from developing countries have to be certified according to the strict requirements of the [European Medical Devices Directives](#) (mainly [Directive 93/42/EEC](#)) to do business directly with end-users. This trade channel is especially interesting, because it can significantly reduce the price of medical devices for the end-user.

More direct business with end-users

More end-users, such as hospitals, have started to purchase directly from manufacturers from developing countries. Since the gross margin for the distributor (which can amount to 70%) is no longer included, the price of medical devices for the end-user can be significantly lower, while the profit margin for the exporter from the developing country will be higher. However, direct business with end-users means that exporters from developing countries have to meet strict requirements without any help from a skilled distributor. In addition to the [European Medical Devices Directives](#), requirements of a so-called “programme of demands” such as Corporate Social Responsibility (CSR) must also frequently be met.

Tips

Explore this trend and similar opportunities for your specific product range. For example, Dutch hospital facilities often buy surgical instruments and implantable medical appliances directly from producers.

Do not make the mistake of trying to sell your products for the same price as the distributor charges, but come up with a price that is interesting for you and for the end-user.

Obtain CE certification according to the European Medical Devices Directives.

Ensure that your CSR policy is superb and advertise it clearly (on your website and in brochures, for example), preferably using quotes from your CE audit report.

[Medica](#) in Germany is the annual meeting place for the European medical and health-care industry. Visit Medica to meet end-users from all over Europe and discover business opportunities with them.

2. Market segments

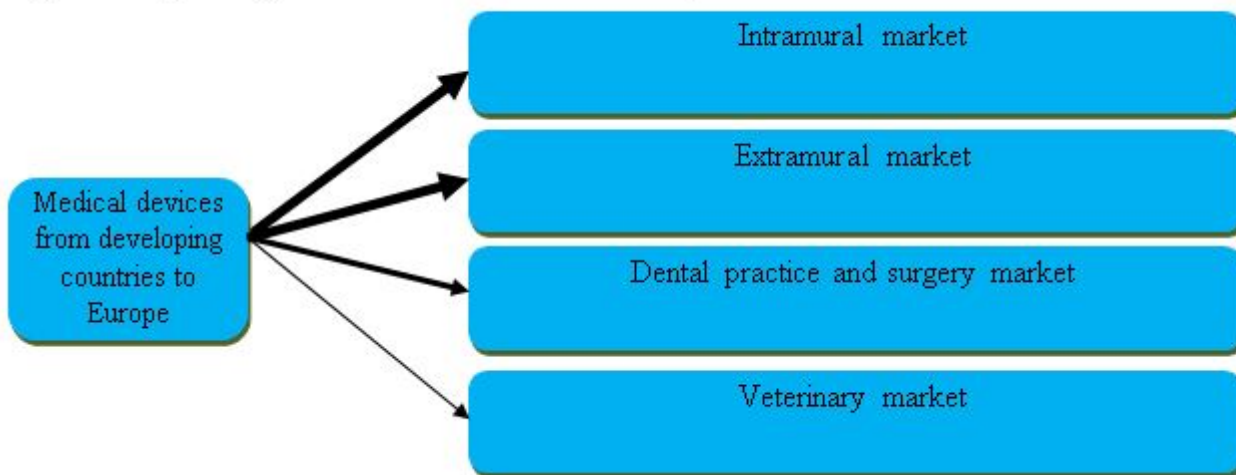
The market for medical devices in Europe can be segmented according to several criteria. For suppliers from developing countries, the most practical segmentation is according to the type of buyers and the type of product.

Buyers segmentation

The market for medical devices can broadly be divided into the following segments:

- intramural market, which consists of:
 - o hospitals
 - o nursing homes
 - o psychiatric institutions;
- extramural market, which consists of:
 - o general practitioners (GPs)
 - o specialist doctor practices
 - o homecare market;
- private dental practices, and jaw and dental surgery departments of hospitals;
- private veterinary practices and veterinary clinics of university hospitals.

Figure 2: Buyers segments for medical devices in Europe



In general, all segments use the same or similar distribution arrangements. The intramural and extramural market segments are much larger in size than the other two. For this reason, further focus is on these two market segments. Of these two focus segments, the intramural market is the largest with respect to the demand for medical devices.

The majority of European demand for medical devices comes from private and public hospitals. The second-largest user group is GPs and specialist doctor practices. Note that there is a small, but growing consumer market segment for medical devices such as test kits and blood pressure meters as well, but this segment is estimated to be very small (less than 2% of the consumption of medical devices). Nursing homes and psychiatric institutions generally have a higher demand for medical disposables than medical devices. Nevertheless, there is demand for medical devices such as hearing aids in nursing homes.

Intramural market

The intramural market segment is constantly changing. In most European countries, there has been a decrease in the number of hospital beds, which has been achieved by reducing a patient's average length of stay in the hospital. The shorter hospital stays are a result of the increasing adoption of minimally invasive interventions in Europe, mostly in western and northern Europe.

In addition, the growing adoption of robot technology in surgeries and the increase in Diagnostic Treatment Combinations (DTCs) also enable faster recovery times and therefore shorter hospital stays. As a result of shorter hospital stays, homecare treatment is continuously growing. Hospitals in countries from Central and Eastern Europe (CEE) have also reduced their number of beds and are focusing more and more on smaller but better-equipped facilities. However, bed numbers per capita in the CEE region still remain high compared to the average in the rest of Europe.

The purchasing departments of hospitals purchase their medical products independently, although some do so through hospital trusts, particularly when they purchase huge quantities of commodities. These trusts are regionally orientated and represent hospitals within a certain region. The major benefit of joining a trust is the reduction in prices (discounts) as a result of increased bargaining power with suppliers.

Extramural market

In the extramural market, the number of medical staff per capita has been decreasing slightly. In general, the consumption of medical devices and medical disposables in the extramural market is increasing. The growing population and an increasing life expectancy cause this increase.

Product segmentation

There are more than 500,000 medical technologies registered. These fall within 16 categories of products, as determined by the [Global Medical Devices Nomenclature Agency](#). For practical reasons, the European market

can be segmented into seven main categories:

- dental and orthodontic implants and instruments;
- dental equipment and devices;
- high-tech medical and laboratory equipment;
- medical and diagnostic equipment;
- medical and laboratory commodities;
- medical and surgical instruments and appliances;
- ophthalmic equipment and instruments.

The segment with the highest expected sales growth in Europe is diagnostic equipment; in particular endoscopy, which is expected to grow by 7% per year until 2022.

In vitro diagnostic, cardiology and diagnostic imaging are the largest medical technology sectors in Europe. In the cardiology segment, the highest sales are expected in the field of implantable cardiovascular devices, stent technologies and cardiac rhythm management systems. Other subsegments with high growth expectations are cosmetic surgery and lifestyle products.

Margins per segment

With few companies willing to share price information, it is difficult to draw a specific conclusion on profit margins. Feasible margins for a distributor/importer generally depend on the competitiveness of the market and the type of product. For commodity products in a competitive market, such as some types of disposable devices, the gross margin of the distributor/importer can range from 5 to 20%.

In comparison, a speciality product in a niche market can be sold at a higher price, so that the gross margin could amount to 70% (net margin approximately 30 or even 40%) and sometimes even 100%. In addition, brands are an important factor for determining margins in Europe.

Apart from the market structure, the price that a supplier can charge also depends on the impact that the product will have on the patient and the price of alternative treatment methods. Therefore, finding the optimal price may involve some market testing.


Tips


Of course, margins for exporters from developing countries are largest when they do business directly with end-users. These margins depend to a considerable extent on the type of trade channel. In light of this, carefully consider all pros and cons of the various trade channels, and choose a particular market entry strategy based on that analysis.


You should highlight the benefits of your product in terms of cost-savings and improvements in efficiency, as this will increase your market chances.

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