

# SHOULD I HIRE A VICE PRESIDENT OF MARKETING OR A VICE PRESIDENT OF SALES INTO MY START-UP MEDICAL COMPANY?

Presented by:

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*Marketing and sales: Two complementary but different functions. Should you think about them now or think about them later? These are important issues which should be taken into consideration early in a medical start-up's development. Choosing the right time to hire marketing and sales executives can be critical to a young company's ability to succeed.*

In the highly competitive medical arena, producing great products is not enough. The start-up company also must ensure that its products truly address market needs and that the target markets are large enough to support a successful company. The viability of many companies is determined by customer acceptance of the first product. So it is imperative to make the right commercialization decisions long before market entry.

Marketing considerations typically come into play early. Ideally, every effort should be made during the product development process to thoroughly evaluate product

features and benefits, to determine how they stack up against offerings already in the marketplace or under development by others, and to plan ways to make the company's products stand out.

In the absence of a person responsible for marketing, the company president usually takes over this role. In such cases, the president must have a reasonable understanding of the customers which the company intends to serve and know the competitors' strengths and weaknesses. I have been an investor in several medical companies where founders without formal marketing experience have provided exceptional strategic direction prior to hiring a Vice President of Marketing.

If the founding team does not have the experience or resources to perform early market analysis and product positioning, the company may temporarily enlist the services of a consultant. It is possible to find at least one qualified strategic consultant in most market segments. Eventually, however, the company will need to hire senior executives for both marketing and sales.

The following article is meant to serve as a guide. In it, I define the overall responsibilities of marketing and sales,

and summarize how these two vital functions interact. At the end is a reading list for further information.

## **Differentiating Between Marketing and Sales Functions**

The objective of marketing is to help establish the strategic direction of the company, to continue to refine and update the company's strategy, to help implement the strategy, and to support the selling activity. The objective of sales is to obtain orders for the company's products or services, and to ensure that customers are satisfied with their purchases. Within each of these objectives are a series of responsibilities that may be the individual or shared domain of marketing and sales.

## **Marketing Responsibilities**

**I. Providing Strategic Direction –**  
The person responsible for marketing will conduct an initial review of products, potential customers and competitors, with the objective of establishing a defensible positioning for the company. This positioning helps to establish how the company and its products are placed in the customer's mind relative to competitors. It evolves as the company

grows to include the analysis of new products and new markets.

**II. Ongoing Analysis and Market Assessment** – Marketing's job is to continually challenge the company's strategic positioning and guide its evolution as markets and products change over time. Working in partnership with customers as well as the sales force and the research and development team, marketing stimulates the creation of new product concepts, and captures and analyzes the ideas generated by customers and others within the company. The objective is to estimate the degree of fit with the company's current strategy, estimate the market size, project the profits these products might generate, and prioritize when products should enter the development cycle.

It is marketing's responsibility to continually scan the environment, looking for opportunities to acquire or distribute products manufactured by others, and arranging various sales channels for the company's products and services.

Market and marketing research, which include focus groups, in-depth interviews, telephone and mailed surveys, and test marketing, are valuable tools to help guide the company's strategic planning. The person overseeing this activity should be analytical and capable of developing an extensive list of questions to be answered through the research.

Strategic planning also requires a good understanding of the changing health care environment. The evolution from fee-for-service reimbursement to managed care has changed the way products and services are purchased. Customers place much more emphasis on cost and outcomes, and many more parties are involved in purchasing decisions, including formulary committees, new product committees, nursing, central

### MONITORING COMPETITORS

*An instrument company selling to hospitals learned from its sales force that its major competitor had reduced the price of its product by 40%. This feedback provided the impetus for the company to completely redesign its product to lower the cost and maintain a competitive edge. The redesign enabled the company to match the competitor's selling price with a superior product and thereby dominate the hospital market.*

supply, finance and others. Marketing must be able to assimilate disparate information and extract the important issues and trends.

The ability to develop and analyze a number of feasible strategic options is crucial. If the company does not have the resources or cannot afford them, it may be necessary to enlist the services of a proven strategy consultant.

**III. Supporting Selling** – The person in charge of marketing, usually working closely with the CEO, will help select the ideal method for selling the company's products. Among the options to consider are a direct sales force, dealers, manufacturers' representatives, value-added resellers, telephone, the Internet, or direct response marketing. Variables to consider include the per sale contribution margin (selling price minus cost of goods sold), length of time required to make a sale, and the sales force expertise needed by the product and the customer.

The marketing department is charged with establishing the sales price for each of the company's products. To set these prices, marketing will attempt to measure the value products deliver to

customers, estimate the price elasticity of demand (how estimated sales volume varies with changes in price), gauge customer expectations of what the product should cost, analyze the pricing of competitors, and determine what price is necessary to generate a profit to support the company.

Marketing also is charged with performing on-going analysis of potential purchasers of the product, with an eye toward providing direction to the sales force. Ideally, marketing should identify the profile of prospects most likely to purchase the company's product.

To further support selling, marketing is responsible for creating customer awareness, stimulating product demand and generating sales leads for the company's sales force. Techniques include advertising, trade shows, public relations, direct mail, an Internet home page, and a multitude of other alternatives aimed at generating the most highly qualified leads possible for the sales force.

Marketing provides various forms of support needed by the sales force to convince customers of the value of the company's products. Among the possibilities are product brochures, advertisements, presentations at seminars and conferences, video tapes, and

### CREATIVE MARKETING

*A company selling laser systems for surgery used direct mail targeted to 2,000 gynecologists who had attended courses on laser surgery. Each letter was personalized and signed by the Vice President of Marketing to increase the probability that the mail would be opened and read. Many systems were eventually sold to the 15% who completed the reply card.*

any other materials that will help the sales force close orders.

The company may choose to initially hire a boutique advertising agency and then evolve into using a full-service advertising agency. A boutique firm can help design an advertisement, a product brochure, a public relations campaign or a direct mail program. A full-service agency will design all advertising and collateral material and also provide creative marketing input. Frequently, a separate firm handles public relations.

**IV. Creating a Product Management Structure** – Early in the development of a company, it is advisable to appoint product managers, with one person responsible for each product or group of similar products. In addition to many of the marketing responsibilities noted above, Product Managers are responsible for coordinating activities relating to their product across all functions within the company, including research, product development, manufacturing and finance. Product Managers typically make major contributions to the evolution of products. Their position is an ideal training ground for a future Vice President of Marketing.

#### SELLING STRATEGY

*A diagnostic company concluded that it was not cost effective to hire a direct sales force to sell its \$25 point-of-care diagnostic device to hospitals. Potential revenue per customer was not sufficient, and the 3,000 target hospitals were located throughout the United States. The company decided instead to sell through a distributor of hospital laboratory products and to supplement the distributor's sales force with ten of its own highly trained salespeople.*

#### VP OF SALES HIRED FIRST

*Investors purchased a health care systems division from a diversified software company. Acquired software already had been developed and installed at 20 satisfied customers. The newly recruited CEO decided to hire a Vice President of Sales and a direct sales force to increase sales as rapidly as possible. A Vice President of Business Development was hired next to help sell the software through corporate partners. One year later, when the company needed someone to provide strategic direction and sales support, a Vice President of Marketing was hired.*

#### Sales Responsibilities

The major objective of the sales function is to obtain orders from prospective customers. If the company elects to hire a sales force, the Vice President of Sales must determine the optimal size of the group, define the characteristics needed by each individual to be hired, and train the sales force to sell the company's products.

**I. Hiring the Sales Team** – To help ensure that the company's sales volume grows as rapidly as forecasted, the Vice President of Sales will try to recruit a team of people who have sold similar products or have at least sold to the targeted customer base. Specialization in sales is important. For example: selling high-priced capital equipment that requires in-depth financial analysis to a hospital is very different from selling low-priced medical supplies to a clinic.

**II. Sales Training** – The process for training the sales force should include an analysis of potential customers and their needs, information about how and why the company's products fulfill those

needs, and persuasive strategies for moving customer prospects through the selling cycle, from awareness, willingness to listen and interest, to a desire to purchase the company's product and sign a purchase order.

**III. Support After the Sale** – The sales force represents the most important ongoing connection between the company and its customers. This group is responsible for orchestrating company resources to provide the required after-sale service and customer support. The sales force also is responsible for providing customer feedback to both marketing and product development regarding the company's various offerings. This support is a crucial function of the sales department, one that will help the company evolve its products in the direction most likely to achieve long-term customer satisfaction and growing product sales.

#### Responsibilities Shared by Sales and Marketing

**I. Sales Forecasting** – Marketing and sales management work together to establish a sales forecast. This effort includes an analysis of customer needs and product fit, an estimate of the potential number of buyers, their demographics, ability to pay, and the projected effectiveness of the selling channel. Sales forecasting is critical – it drives the level of spending for all departments in the company.

**II. Methods of Distribution** – Marketing and sales will work together to determine the optimal method for physically distributing products. Among the options: ship or mail directly to customers, or distribute through intermediaries (distributors, wholesalers, dealers or retailers). Some products, such as software, data and information, can be delivered via teletransmission.

If the company ships direct to customers, it must invest in the logistic functions of billing, accounts receivable and inventory control. Importantly, shipping direct to customers will enable the company to know who is purchasing the product. The company also will have the opportunity to benefit from direct, uninterpreted feedback on product performance and pricing, and obtain ideas for product and service improvements from its customers.

Companies that distribute through intermediaries usually receive little feedback from customers, and they might not even know who is purchasing their products. If the distributor is performing only the logistic functions of distributing the product, a typical commission might be 15% of the sales price. When this intermediary becomes involved in selling to customers, the commission can range from 20% to 30%.

### Who Should Be Hired First?

To determine whether you need a Vice President of Marketing or a Vice President of Sales first, one must understand the company's priorities and assess the skills of the rest of the management team. Most start-ups should hire a Vice President of Marketing during the first year of operation. However, if the President of the company understands marketing, he or she may be able to provide strategic direction on an interim basis.

Ultimately, every company will need an individual in charge of marketing and an individual in charge of sales. Because of the skills required, it is rare to find one individual who can lead and manage both functions long term. To oversimplify, marketing is strategic and has a three-year planning horizon, while sales is more tactical and focused on meeting the yearly sales forecast.

If the company does not intend to commercialize its first product for five to seven years, hiring a Vice President of Sales in the near term would not be cost effective. But if the company is developing a product that will be ready to sell in twelve months, a Vice President of Sales should be brought on board soon. It will take time to recruit, hire, train, and deploy a competent sales force.

The question is often raised whether the senior marketing person should report to the head of sales, or whether the head of sales should report to the head of marketing. In my experience, either sales reports to marketing, or both sales and marketing report to the Chief Executive Officer. Strategic direction comes from either the CEO or the Vice President of Marketing, and it is important that this activity be autonomous, rather than part of the more tactically directed selling.

Before the hiring begins, the CEO must have a clear understanding of the company's needs and the organization's existing capabilities. With a qualified Vice President of Marketing to create a strategy and support selling, and with a proven Vice President of Sales to develop and implement the plan to generate sales, a start-up company is destined to flourish.

### About The Author

Fred Dotzler has extensive experience in marketing and sales. He began his career selling mainframe computers for IBM. Later, he became a Product Manager, Director of Marketing Support, and Director of Marketing for G.D. Searle, a major pharmaceutical company. He then served as Director of Marketing for Millipore Corporation, a biotech separations company. Prior to becoming a venture capitalist, he was Vice President of Marketing and Sales for Merrimack Laboratories, a surgical laser company.

### For Further Reading

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De Novo Ventures is a lead venture capital investor focusing on the early stage financings (the seed, start-up and first round) of medical companies in the western U.S., particularly in California.

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