

## Value Genesis: Gaining Market Share through Cannibalization – A Medical Device Story

**Client:** Division of a *Global 1000* pharmaceutical company; a world leader in medical systems and associated consumables.

**Challenge:** The client had traditionally been the dominant player in this product category. A competitor unexpectedly introduced a similar product focused on emerging market segments that had not been targeted by the client. The client was looking to develop a product that addressed this threat without unduly diverting resources from the core product line.

**Diagnosis:** The client had enjoyed a strong market presence, a situation which gave them confidence that they thoroughly understood the market. This made them slow to acknowledge that the competitor had identified a substantial opportunity. Moreover, the client was reluctant to update its products for fear that it would cannibalize the stream of consumable sales resulting from its installed product base.

The client ultimately went down the new product development road with the intent of bringing to market a separate product consciously designed not to cannibalize sales from the core product offering. The resulting product had features that were ostensibly similar to the competition, but did not fully address end-user needs or clinical practices in target segments. Realizing that the proposed product solution would prove both too risky and costly to bring to market on its own, the client turned to Product Genesis.

**Methodology:** The Value Genesis process started with the inspection of the strategic assumption that replacement of the current product would diminish consumable sales. A model was developed which indicated that a comprehensive offering that supplanted the existing product would, in fact, yield higher long-term consumable sales and overall market share than a fragmented offering designed to avoid cannibalization. This finding cleared the way for the consideration and potential development of a broad product platform.

Definition of a next generation product line started with a thorough characterization of user needs. A cross-

functional team, comprised of both client and Product Genesis personnel, conducted detailed observations of clinical procedures in various settings. Requirements were captured from the perspective of all players involved in procuring equipment and delivering the associated medical care. The resulting requirements were grouped and sorted to reflect common needs and the unique needs of each segment.

After performing a thorough needs analysis, a value chain analysis was conducted for each target segment. This analysis characterized the various distribution channels and value added steps the clients system went through before installation in the clinical environment.

A platform analysis determined the best product architecture to efficiently address the needs of previously identified market segments. The objective of minimizing the risk of entering any given market segment was achieved by defining a core platform that addressed needs common to all segments. Additionally, modular subsystems were designed that could be appended to core product, thus addressing the needs of specialized segments. Special attention was paid to the interfaces required to interoperate with major OEMs systems as well as complementary products.

**Results:** The most immediate result of Value Genesis was the characterization of fundamental shifts in demand heretofore unrecognized by the client. The identification of this shift led directly to a fresh look at product architecture.

Customer interviews within the target market segments yielded a hierarchy of needs that was reflected in the resulting architecture. The modular platform allowed for the design of low-cost, entry-level products that could subsequently be upgraded with premium feature sets. Additionally, the modularity minimized product risk, as specific features could be redesigned without major product rework.

Finally, Value Genesis identified high-leverage OEM channels as potential purveyors of the technology. In total, the analyses performed and channels identified led to a reduction in product development time by 40%. Similarly, incremental product development cost was curbed by 40%.

