

Chapter 38:
Embrace Innovations Case Study
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Take-home messages:

- Distribution—one needs to carefully consider the transition from direct to indirect distribution channels. Direct sales team initially allows a venture to control the entire commercialization process and learn how to sell, market, and service the product most effectively.
- Best-in-class service—by creating a better experience for customers/physicians, you create brand loyalty, which leads to product champions. Product champions in turn lead to referral business—one of the strongest customer acquisition tools.

Globally, 15 million babies are born prematurely every year, resulting in 1.1 million deaths. The vast majority of them occur in the developing world. Four graduate students from Stanford attempted to tackle this epidemic. They started exploring the health issue in the Stanford class “Entrepreneurial Design for Extreme Affordability”. Realizing they needed to understand the issue better, they spent time in the field in Nepal working with hospitals, physicians, and mothers both in urban and rural settings. They recognized that premature and low-birthweight babies were not getting the necessary care with the current health infrastructure, and they realized they needed to create a solution that was portable, did not need electricity, and was easy to use for a rural midwife or mother. They formed Embrace Innovations as a for-profit social enterprise. [1]

They realized that they needed to be local in the country they were going to first target, and chose India, as that is where 30% of all neonatal deaths take place. Soon after graduation, the four Stanford grads moved to Bangalore, India. They decided to create a low-cost baby incubator (Figure 38.1). But unlike traditional incubators that cost around \$20,000, they were targeting a product that was less than 1% of that cost, and with a feature set that was developed specifically for the emerging markets. They undertook a localized R&D process and created a product that did not resemble anything like a traditional incubator. They developed a product that looked like a sleeping bag, but had a special wax pack that the caretaker could heat for 30 minutes and would retain a 98 degrees Fahrenheit temperature for four to six hours. They also created a color indicator, indicating when the wax needed to be reheated. They spent an extensive amount of time in the field with physicians and mothers to understand the true needs of the target product. They leveraged the Lean Startup methodology and created hundreds of product iterations that were field tested at each product tweak. Following this comprehensive, field-tested iterative approach, they developed a product with strong market viability.



Figure 38.1: Embrace Innovations' low-cost baby incubator

Now that they had developed the product, they needed to focus on distribution. Their first step was to identify their distribution channels. They decided to go through indirect channels first, as they partnered with a large Multi-national Corporation (MNC) for distribution in large urban centers, and with local distributors for rural areas. With large distributors, the challenge they faced was the lack of focus on their product from the MNC. But by addressing the issue with the MNC, they were able to train the MNC salesforce to sell the Embrace product effectively. Their larger challenge lay with the local rural distributors. The distributors would often quickly sell several units to physicians who they had close relationships with, but their sales would soon drop off after that. This was a widespread trend observed across all the distributors Embrace worked with. That is when they realized that in the rural markets, they had to go direct and build their own sales team. That would be the only way they could control the entire commercialization process and learn how to sell, market, and service their product most effectively. Building a sales team was costly for Embrace, and at first the revenues produced did not cover the costs of the sales team. But the Embrace team realized that the sales team was an investment, and once they learned how to successfully commercialize

their product, they could teach distributors how to most effectively sell, market, and service the product, and that indirect distributor channel would then allow them to reach the financial sustainability that they desired.

Marketing posed to be a challenge at first, as there were not many examples of ventures successfully selling and marketing medical devices at their price point to rural markets in developing countries. Since there were no true best practices that they could follow, they had to create their own path. The Embrace team would come up with many creative marketing programs, from hosting physician peer-to-peer events in a specific region to flier campaigns where they would distribute collateral on the Embrace product before sales calls. Through Lean Start-up controlled experiments, they were able to determine which marketing programs were the most effective.

Finally, they needed to learn how to best service their product. After field observations, they realized that a large percentage of their products were not being used by physicians after the first month of sale. After further investigation, they realized that after the delivery of the product, no one from Embrace was in contact with the physician and staff. The Embrace team created what they called their Customer Satisfaction Program (CSP). The program first instituted a strict checklist-based training program, where upon delivery of the product, the physician and the entire staff were thoroughly trained. Second, each sales rep was mandated to follow-up with each clinic twice in the first month after the first sale. During these visits, the sales rep would answer any questions and refresh the physician and staff on how to use the product. They found that simply the sales reps presence would bring the Embrace product to mind and remind the physician and staff to use the product more regularly.

By creating a better experience for the physicians, they were building brand loyalty and eventually product champions. Having a product champion is the ideal end-goal with a customer, as product adoption then comes through referrals. Not only is referral business free, but it is also more powerful than any sales or marketing program, as a physician is being recommended to adopt the product by another physician that they trust.

Through disciplined approaches from issue identification, to localized R&D, to effective distribution strategies, Embrace has been very successful. To date, they have saved the lives of over 150,000 babies. Their aims, of course, are even greater. Embrace aims have their product be the gold standard-of-care for low birth-weight and hypothermic babies of the poor in the developing world.

Discussion questions

- 1) Product champions can create powerful referral business. What strategies and tactics can you use to better cultivate product champions? How would you leverage your product champions to make the biggest impact for product adoption?
- 2) Distribution channels are an important strategic decision for a business. What are the different pros and cons for both direct and indirect channels? What is the correct timing to make the transition from one to another?

3) Creating the best-in-class customer experience is critical for customer satisfaction. What are different strategies and tactics that you could use to enhance the customer experience further?

References:

1. Chu, Michael, David E. Bloom, and Alison Berkley Wagonfeld. "Embrace." Harvard Business School Case 814-001, July 2013.