

Exit Preparation/Positioning For Surgical Training Products Supplier: Defining A Niche Market And Establishing Competitive Positioning

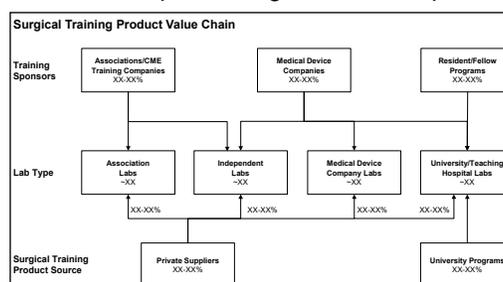
The Challenge: Our client, a leading surgical training product company in a growing niche, was preparing to seek investment to support its growth and needed to help its investment bank develop a clear and credible narrative regarding market size and structure, competitive dynamics, and growth opportunities. As no market information was available beyond management's experience, our client engaged Gotham to: 1) determine the size, structure, and growth rate of the surgical training products market; 2) pin down buying criteria/processes for each customer segment; and 3) establish the competitive landscape.

Niche Market And Competitive Analysis: To build a solid fact base about this highly secretive market with no readily available information, Gotham used three different approaches, all of which resulted in similar market size estimates:

- **Training Venue-Based:** Gotham interviewed ~25 training centers to understand facility utilization, training sizes, buying processes, and product needs by facility type/size. Additionally, Gotham identified all ~175 training centers in the US and created a database including facility size, facility type, and annual number of trainings. We leveraged our understanding of product usage by facility type/size from interviews along with the training center database to determine market size.
- **Training Sponsor-Based:** Gotham interviewed ~25 training sponsors (e.g., medical device companies, professional associations, surgical residency programs) to understand their training programs/outlook and buying processes. We then calculated market size by using their product usage and the number of trainings sponsored by each type of sponsor.
- **Competitor-Based:** We established the competitive landscape by profiling major competitors (business model, size, geographic scope, certifications, training facilities, distribution centers, international presence) and quantified their revenue of competitors through interviews with management, competitors, and industry experts. As some competitors were non-profits, we also used IRS Form 990 to determine their revenue.

Complex Value Chain Featuring Multiple Configurations Of Sponsors And Venues

The surgical training product market features multiple types of training sponsors (e.g., medical device companies, professional associations, residency/fellowship programs) and multiple types of training venues (e.g., independent labs, medical device company labs, university/teaching hospital labs), either of which can make purchasing decisions, depending on circumstances/preferences. The value chain is further complicated by the idiosyncrasies of university training centers, which have unique product supply dynamics that generally exclude their trainings from our client's addressable market. While university facilities are primarily used for residency/fellowship programs, they are increasingly marketing their facilities to outside training sponsors, threatening the client's market. Overcoming these complexities, Gotham built a market map by establishing the venue usage of each sponsor category (e.g., medical device companies using company-owned training centers, independent training centers, and universities) and the customer mix for each training venue type.



Growing Market Driven By Regulation And Usage By Additional Surgical Specialties

Medical device companies, the primary drivers of the market, invest in surgical training to reduce their exposure to surgeon-error lawsuits and to make surgeons comfortable using increasingly complex medical devices/techniques; the adoption of minimally invasive surgery was a particularly important growth driver due to its importance and novelty. The prominence of surgical training grew further when marketing budgets shifted towards surgical training in response to state and federal regulations (including the ACA-related Physician Payment Sunshine Act) that made offering surgeons cash and entertainment an increasingly untenable strategy for maintaining customer relationships. Gotham established that future market growth would be driven by increased usage by surgical specialties that haven't traditionally used the client's surgical training product (e.g., dental, neurology, gynecology, cardiovascular instead of orthopedics), increasing penetration of robotic surgical techniques, greater accessibility of surgical training products, and pricing trends. We quantified each growth driver and found that increased penetration among new surgical specialties was most important. For instance, to establish growth from emerging surgical specialties, we modeled the overall potential surgical training product need for each specialty and then estimated current/future penetration rates based on interview findings.

As Largest Player In Market, Client Well-Positioned To Capture Growth Opportunities

Gotham's competitor profiles established that there are 3 types of players in the market: 2 large national players, including the client, that have national reach and the gold-standard health and safety certification; 3-4 medium-sized players that have the same certification but lack national reach; and a number of small local players that generally lack adequate health/safety standards. As one of the 2 market leaders, the client is well positioned to capture growth opportunities: 1) the client's national scale makes it an attractive partner for major medical device companies that prefer stable relationships with 1-2 vendors; 2) the industry expects stricter regulation in the near future, which could benefit the company by pushing smaller players out of the market; and 3) the client's scale and high health/safety standards position it as one of the few competitors capable of effectively pursuing international markets, which are growing more rapidly than the domestic market.

The Outcome: Gotham's market analysis provided the solid understanding of market size, market structure, dynamics, and growth opportunities needed to write an effective offering memorandum. The quality of Gotham's analysis allowed our client to credibly market their company as a leader in a growing market.