

# [Invacare wheelchair strategy case](https://assignbuster.com/invacare-wheelchair-strategy-case/)

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Despite this issue, wheelchairs are a vital product in healthcare and have sustained continuous demand; the industry has grown trot $75 million to $400 million USED in 15 years (see Exhibit 2 trot the case) and all Its segments are projected to grow 11. 75% on average In 1993. (see Exhibit 1 in the case) Adding to the factors of unattractiveness, this industry has limited distribution channels, which are also quite specialized and require different attack strategies because they deal with end-users (patients) and suppliers (such as Invariance and

Sunrise) differently and usually the price is set by Medicare’s guidelines, meaning that the leverage holders in this instance are usually distributors and not suppliers, where large HEM buyers dropped prices by 15% In 1991-1993. Since wheelchairs are not ultra-specialized, high-tech products (no competitor has a significant patent), threat of substitutes exists; the initial investment for new market tofu entrants Is not considerably Nell Ana outsource pitons are available.

Although t is an advantage that also the industry incumbents hold, because their raw materials such as steel, aluminum and plastic) are commodities, therefore they can purchase them from several suppliers at reduced prices. Intra-industry rivalry is intense, and can be explained by the low diversification potential of the wheelchair market (all products are similar) and since extracting profit out of them is not easy, incumbents will fight hard against new entrants to protect their share.

This can be demonstrated from the continuous attack and response actions from 1986 to 1992 of Invariance and Sunrise (see Exhibit 6 in the case). And also the price war between Invariance and E; J in the sass’s. One example when this rivalry has not been as immediate is the 6 years it took Invariance to respond to Sunrise’s lightweight wheelchair innovation, Cost of Goods Sold represent around 65% of sales in the top three players (partly due to discounts at distributor level in the case of Invariance), to add insult to injury, prices in 1992 decreased an average of 6. % on all three distribution channels; it is worthy to note the example of the General HEM Dealers, who were able to decrease the price in a 1 5%, another sign of their held leverage due to their high volume purchases 75% of the industry) The factors mentioned above, the semi-oligopoly nature of the industry combined with low selling leverage from incumbents, are probable deterrents for profitability.

Good news exist though, and it comes in the form of the probable growth in the lightweight segment, where the new Medicare policies will allow insurance companies to reimburse up to $850 USED per patient (up from $650 from 1992), therefore it is safe to assume there will be more sales in other channels where the end-user might opt for the lightweight wheelchair, since they will likely have higher arches power with the added insurance reimbursement capital.

If this happens and more sales are driven through the Rehab Suppliers for example, then it would be safe to say profitability will increase, since that channel does not have deep discounts compared to HEM. (2% price decrease in 1992 vs. HEM’s -15%) Quickie’s main advantage relies on being a pioneer in the industry, while Invader’s been a follower. Quickie released many product innovations and could be credited as the creator of lightweight and ultrahigh segments in the category (see Exhibit 6 in the case).

Part of the benefits that being the first hitter in the category is the market share yield on those innovative segments (Quickie holds a remarkable 49% market share on the ultrahigh segment) Quickie also has multiple other advantages (as a part of Sunrise) such as the manufacturing and logistics philosophies like Just-in-Time, lean manufacturing, etc. A factor that accounts for decreasing quality issues and manufacturing costs is using fewer parts versus Invader’s Action wheelchairs (50-100% less parts in Quickie’s model), this approach also benefits Hospitals and

Nursing Homes’ ability to hold inventory in contrast to Invader’s strategy. Quickie’s COGS for 1992 was 13. 5% lower than that of Invariance. (62% vs. 75. 5%) Another advantage Quickie holds against Invariance is a higher durability (5-10 years) AT tenet Breezy whimsicalness, tens targets rent I meets Vela HEM dealers Ana rehab suppliers which seek durable products to minimize re-investing in chairs; this focus yields more profitability to Quickie, since the Breezy was cheaper to manufacture and had good appeal with the end-user.

Advertising expenditure and media used is similar in both companies, but Quickie’s approach with handicapped athletes as endorsers and spokespersons at events made sure their brand remained close to the end-user. A relevant impact of Quickie’s core values versus Invader’s is exemplified by the Motion Designs purchase -that company was approached by Invariance to be purchased, but Motion found a better fit with Sunrise-.

A company culture that really understood end-users (essentially handicapped people) likely has impacted the sales-per-employee to be superior to those of Invariance, while reducing the impact of quality-related issues complains) being able to respond at almost end-user level with a soft-sell pitch, instead of hard-selling mostly to HEM distributors that have little contact with the final purchaser. Sunrise should allow Guardian to enter the lightweight wheelchair segment, despite the sister company’s (Quickie) stake in that segment.

One main reason is that next to the power-and-pediatric, the lightweight segment is expected to grow the most (15%) in 1993. This would mean that there is upside to attract sales from that growth into Guardian. The downside is taking market share off from Quickie, but because it is the hired player in the segment (even Everest ; Jennings has a higher share) it seems more likely to attract more growth from other competitors than from its sister company, should it enter that segment.

Another reason is the insurance reimbursement increase to up to $850 USED, which is targeted at the lightweight segment; paired with the expected 15% growth, it seems reasonable to bet in favor of Guardian entering as competitor. Finally, speaking of profitability, Guardian’s COGS represents 72% of sales (coming only from the Standard segment), well higher than hat of Quickie’s (62%) – (see Exhibit 4 in the case).

This might mean (assuming that Quickie’s COGS is spread evenly in the Lightweight, Ultrahigh and Power/Pediatric segments), that in the event that Guardian uses standardized parts/manufacturing know-how from Quickie, it can benefit from those lower costs, and perhaps become a profitable option in the segment. In the event that Guardian came out with a lightweight wheelchair, it is likely that Invariance would lower their price (it has done it in the past against Everest &

Jennings), because their largest market share comes from the lightweight segment, therefore it is probable Invariance would fight to maintain it. Lower prices are not precisely the key selling drivers, although Invader’s distributors often get a deep discount, the end-user is more focused on design and durability and not exactly price to acquire a wheelchair, and there’s the added end-user purchasing power of via the Medicare increase on reimbursement, therefore, lower prices might only affect Invader’s profitability, rather than serve as incentive to hold market share from Guardian’s entry.