

Daniel Litwin: 00:03

Welcome to the Sunrise Podcast, powered by Sunrise Labs. Hello everyone. Welcome to Making Bright Ideas Work, a podcast by Sunrise Labs. I'm your host Daniel Litwin, the Voice of B2B, and I'm really looking forward to today's breakdown on the podcast. Thanks again for tuning in and make sure you're subscribing wherever you're listening to your podcasts to follow up for more content from Sunrise Labs. So on today's episode, we are analyzing the best way to approach relationships with both contract manufacturers and contract design firms when you're launching a new medical device. The industry has been seeing a trend of contract manufacturers merge with or gobble up design firms and there's a business case there on getting returns for owning all parts of the medical device creation process.

Daniel Litwin: 01:02

Our guest today though is giving his pitch for why an under one roof solution, it can be more trouble than it's worth and can potentially actually stifle your medical devices effectiveness and potential. So here to give his insights on the topic is Eric Soederberg, CEO of Sunrise Labs. Eric, pleasure getting to chat today. How are you doing?

Eric Soederberg: 01:25

Great Daniel, it's great to be here with you today.

Daniel Litwin: 01:26

Absolutely. Really looking forward to breaking this down. Some of my favorite conversations are definitely the ones that look at the intra-industry relationships. They're incredibly B2B and that's what we're good at. So B2B it is. Let's go ahead and jump right in. If you could, could you give us some context on that industry trend of contract manufacturers, or CMs for short, gobbling up design firms? When did this start to be a trend at scale and how have you seen it impact those intra-industry relationships between CMs and design firms and between those two and the clients they work with?

Eric Soederberg: 02:08

Sure. Well, I think this is something that started maybe five years ago that we really started to notice. And the way we noticed here at Sunrise is that we started seeing a lot of interest in companies. Sometimes they're strategic companies or a manufacturer looking to add to their design capabilities. And sometimes they're investors looking to combine firms. When you combine smaller firms to make a bigger firm, the multiplier you get when you flip it, when you sell the bigger firm, it's a higher multiplier for a firm that has a bigger revenue.

Eric Soederberg: 02:45

So it's not a linear thing that if you're a 10 million or 20 million or 50 million, you make X amount more for the company. The companies that are worth 50 million in North, just get bigger multipliers times there, either their profit, their [EBIDTA 00:03:03] it's called, or their sales. So it's it's a technique for investors to make money and you got to look at it. So it's a trend we see it, we've seen a lot of our competitors that do design work have been combined now. And it's something we've been resisting because we just don't see it as being in the best interest of our clients. And that's, I guess, the bottom line.

Daniel Litwin: 03:33

So, how are you seeing that impact the way that CMs and design firms are interacting and interfacing now? The ones that haven't yet been merged and consolidated, what are those conversations like? Has the dynamic changed?

Eric Soederberg: 03:54

Not so much. From our standpoint there's... We have a potential client here and there that really wants to see the contract manufacturer that's going to make their thing be the same entity that's doing the

development of their device. They see it as sort of having one throat to choke if there's a problem and they may feel that it's sort of, there's down the road revenue for this company, so they're going to have to do a really good job for me.

Eric Soederberg: 04:24

But there's downsides to that. First and foremost, it really, if you're going... If you need a product design, you want to go match... Get a firm that's got experience doing similar things to what your product needs to do. And sort of leverage their experience doing similar things.

Eric Soederberg: 04:47

And you certainly want a reputable firm, one that's certified to do medical work. It's the design firms that design things day in and day out. So tend to be up to speed on the latest technologies. But importantly in this context is they're agnostic as to which technologies to use. So if I have a manufacturing plant that has certain processes in it, well I'm going to design the product to be built in my manufacturing plant. But that's not the way you want to start a new product development effort. In some cases that might be your best choice, but what you're losing is that ability to take a fresh look at your design and match it to the end users needs and the business needs of that device. So that can be, to your detriment.

Eric Soederberg: 05:42

Example, I'll use something from a commercial example. Ford decides they want to develop an electric vehicle. They may say, "Oh, you know what we'll do, we'll put the batteries where the engine used to go, right? Because that makes sense. And then you know what, because we have manufacturing facility Ford is obviously a boss of design firm and a manufacturer, right? So we'll use the same crane we used to install the engine, and install the battery and that's a brilliant idea."

Eric Soederberg: 06:13

Tesla though, it didn't start with a manufacturing capability. They started from scratch, clean sheet design of what could an electric vehicle look like? And they said, well, from performance standpoint these batteries are pretty heavy. We'd better keep them low and then the car's going to [inaudible 00:06:30] better and perform better and more space for the batteries.

Eric Soederberg: 06:33

So we're going to design a new platform where these batteries are low and then we'll build our manufacturing process around that or we'll find somebody who can do it in the case of a lot of our clients they don't want to be manufacturers but just want to be the manufacturer. So the manufacturing came after the design. So there's a thing called design for manufacturability where you certainly, that's the counter argument here is you want to be, make sure you're designing something that can be built and... I've done a thesis on this in graduate school and I can tell you what design for manufacturability is all about is matching your design to a manufacturing process.

Eric Soederberg: 07:12

So if you choose that manufacturing process upfront by choosing a design firm with a certain manufacturing capability, you've constrained your product to be designed to meet those processes. And it's a constraint that is... There's trade offs there. You may not get the best product you could.

Daniel Litwin: 07:33

We're going to dig in a little deeper into all those things that you just mentioned there. I'm trying not to get too ahead of myself because there's so much to break down here. Let's start with, you mentioned what is motivating these CMs to want to bring design firms under their roof. Break down what the full business cases are for combining those two key processes. And does that vision for contract manufacturers having design in house and working with one partner, does that always work in their favor? What's your holistic perspective on that?

Eric Soederberg: 08:16

Yeah. Well to give, one example is your design might be tailored to a process that it doesn't necessarily have to be tailored to is one issue. You've got the designer now is less free to go off and find the best matches for the manufacturing. So very often you've got a case where one of the trends also sort of big industry trends is every device is a system now. We're developing devices almost... I don't want say the majority of them, for some one reason or another I have to talk to a smart phone either to measure compliance that people are using their medical device. It could be an inhaler or something or it has to be connected so that the user can control it, [inaudible 00:09:12] to a smartphone and inevitably there's data taken there that needs to be stored in the web and access by different stakeholders, whether they be doctors or end-users or caregivers.

Eric Soederberg: 09:25

So there's... Everything's really a system now. So the under one roof I think is less, as time goes on here and things become more integrated is sort of less possible really. Because when you get into all these different pieces of your system, you're negotiating with different partners. Example would be, let's say you have a device that has a catheter or a disposable catheter that's a piece of it. And this is a balloon catheter, say it has to expand to do something. Certainly you'd be crazy not to find a contract manufacturer that designs catheters. And so that thing has to be, that they know how to use what kind of Silicon and what kind of other materials to make this thing robust and sterilizable and all those things you have to consider.

Eric Soederberg: 10:19

But do you want the catheter expert writing the code for an iPhone and the cloud back end and things that you're not going to find everything you need under one roof. It's pretty unlikely you'll find it. If it is under one roof, it's really it's a gathering of different companies that were acquired and it's sort of virtually under one roof. And so it's possible to find that. But to find the right mixture for your device is not going to be easy. What it looks like from a contract manufacturer standpoint, yeah, they want the design capability for the reasons you stated up front is that they want to capture more of that value of flow. It's hard to find new clients, right? And when you have a client, you want to get all the value you can out of that client.

Eric Soederberg: 11:12

So that's piece of it. But the bigger dynamic we're seeing now is there's a lot of money out there that's looking to be invested. And so taking smaller firms and making bigger firms works financially. It doesn't necessarily make things better as I'm trying to point out, but it's something... It's a dynamic that's out there just driven by the investment community.

Daniel Litwin: 11:40

You also mentioned that Sunrise Labs has uniquely resisted the urge to merge. Had to get that little rhyme in there. Have there been specific offers and pressures that you've had to turn down and if so, what is the reasoning there? You don't have to get into the specific offers, by name if you don't want, but just give us some context there on what that has looked like for a design firm that is pretty set on staying independent and what is motivating Sunrise Labs to push back on that urge.

Eric Soederberg: 12:18

So what it looks like is phone calls and emails coming from investors and potential strategic companies and I am really frank upfront, I don't meet with many of them. I say, "Look, thank you for the interest and I mean that genuinely." It is a compliment, but it's not something we're interested in at this point. And what this, the selling point for it to me is always, well, you know what, you should take some money off the table. So Sunrise is privately held and I own most of it. And so the argument is, look, you never know what's going to happen tomorrow. Really why don't take some money off the table now and then you can still maintain some equity and as it grows that equity be worth more and more and all will be good.

Eric Soederberg: 13:08

It's just not what we're here to do. It's not, my motivation is to... We're here to make lives better and make products that improve lives. And it's sort of a... It's not about needing more money in a bank account. The independence of being privately held is something I value more than having money in a bank someplace.

Daniel Litwin: 13:30

All right, let's change the focus now to the actual process for the clients that you're working with and some of the considerations that they are having to take as they're producing a new device. So what are the key steps that your clients take typically to get an effective quality medical device off the ground? And what are the main considerations that you see them take when they're deciding on a design partner?

Eric Soederberg: 13:58

That's a great question. And so usually when our clients come to us, they've already, they certainly have a concept and they have a business model that they've worked out. And absent funding typically not always. And that's where they've already figured out sort of here's the play for the end user, here's where the value add is for this device, why people would be interested in buying it. The first step is, has been taken. So they've established a company and they see a need here. Sometimes it's a doctor who sees a hole and what's available to him to do his practice. And he sees this would be awesome if I had this little device that could do this thing. But what we do, I think as... What we offer to our clients is as a first step is to do the user experience work, which is to go out and talk to real potential land users, show them mock ups prototypes, get them playing with it.

Eric Soederberg: 15:11

Saying if you had this, what would be the most important thing to you? What price point would be okay for this? We go through the user experience. What would the different stakeholders need in this, including through to the hospital? What would the hospital need to see? If it involves a hospital, what would the doctor need to see in the product? What would the patient be comfortable as comfortable with and how would it be most effective? So that's the place to start is not with the sort of what's the cheapest way I can build this thing that I've conceived in my head. It's first to go out and say, is this thing I've conceived in my head, do we have this right and are we considering all the features that are necessary for this because developing the right product is so much more important than it is more than anything else.

Eric Soederberg: 16:12

Your company's not going to go anywhere if there's a product that was... It was built around, some technology's really cool, like... First medical device I ever developed was the [inaudible 00:16:24] wheelchairs, stands up, balances, it climb stairs. It's an amazing machine. But it came out of... It was developed out of this dynamic stability technology and less around what do the users really need? So we can climb stairs with, if you had some upper arm strength, you can climb stairs with it. But anyone with upper arm strength, typically doesn't want a power wheelchair. So it sort of ends up being a product that few people are going to use in the end or spend all that money on.

Daniel Litwin: 17:03

Yeah. You know, I think it's critical to keep the clients focused on what really matters about the device. It's like, yeah, we'll worry about the price, we'll worry about the manufacturing process later. Let's design like, we could design anything, right? Let's put something together that really solves fundamentally the issue that you're looking to solve and that does it in a way that's accessible, easy to use that has interoperability, right?

Daniel Litwin: 17:40

And I feel like that can be stifled when there is another train of thought running through the process of,

okay, but am I to be able to afford this? Or okay, but is there a manufacturing line that's going to be able to produce this at scale? And it's like, yeah, there probably is. But if you lean too much into, I have to stifle my vision upfront, then the product's probably not going to be as good and it's probably going to underperform.

Daniel Litwin: 18:05

And that's what I'm understanding from what you're arguing here and I definitely understand that line of thought. Playing on what you just broke down, how do those considerations change for a client when the design firm and the contract manufacturer end up being the same company, does that change the relationship? Do you see that effecting the product? Do you see clients actually almost materially change how they approach designing the product when they're dealing with a partner that has the full gamut under one roof?

Eric Soederberg: 18:42

It shouldn't be any different. The definition of the product and how the user uses it or it doesn't necessarily have to be a patient. It could be a lab instrument. Those things are fundamental to product design. So they should be done if you're with a competent sort of design firm. The difference isn't a huge one. To be honest we have relationships with multiple contract manufacturers. So we bring in contract manufacturers appropriate to design after the design is defined. And that's the only difference, is that once you've defined the design, it's much easier to you know much better which contract probably manufacturers are better suited for this. And I'll give you another example. I mean we had a client that came to us with a device that they told us requires, "Hey, this is going to need a motor and batteries and electronics to control that motor in a special way to make this device work."

Eric Soederberg: 19:52

And we prototyped up a design that eliminated the need for a motor or any electronics. And long, it worked. And so now, if the contract manufacturer doesn't need any experience integrating electronics into durable and sterilizable device because that's just not needed. And so that's an example of starting with the device design and then, okay, now I can choose the contract manufacturer. I have a lot more to choose from. And not only that, but I can go price different. I can do some comparative shopping among contract manufacturers. So there's always a mix of, which contract manufacturers, what's the volume, what's the complexity of the device? Different contract manufacturers are built around different models they're in and so the design drives a lot of it.

Daniel Litwin: 20:54

And just to wrap up here with, some of the backend processes, I know that digitizing a lot of the design and manufacturing workflow to a degree is actually a case for the two entities still being split because the collaborative aspect of it is easier to achieve to some degree. So what are some of the specific tools that you're seeing helping make that split workflow an independent design firm and then an independent CM? How are you seeing tools make that workflow more efficient and more capable of handling some of these complex designs?

Eric Soederberg: 21:40

Sure. I'm glad you asked. There's a set of CAD tools, sort of that we use that we're able to share files with the contract manufacturers and they can annotate designs. Directly they can make changes. We actually, we'll send bill of material to a contract manufacturer and they'll cost the bill of material and that data will come right back to us all electronically. So it is easier I think for design firms now the days to work with contract manufacturers is there are fewer sort of very specific interfaces that need to be method are different among all of them. There's a lot of more common interfaces now so that we can communicate back and forth with contract manufacturers and really efficiently and effectively whether they're next door or they're in China and we've dealt with everyone, all those places across the country as well.

Eric Soederberg: 22:41

California tends to have the best two Silicon manufacturing people. And if you need something in high volume, you're going to probably end up in Asia. And that's typically with a disposable of some sorts. And then if it's high complexity device, there's several contract manufacturers in the New England area that we're very familiar with, and that whole spectrum we're able to communicate using these tools and in a virtual manner. And it's not under one roof but it's sort of... At an engineering level it's well integrated.

Daniel Litwin: 23:18

All right. Eric Soederberg, CEO of Sunrise Labs. Thank you so much for a deep dive on this topic. Any final words on why you recommend avoiding the one throat to choke scenario and going for an independent design team and an independent CM?

Eric Soederberg: 23:39

Well just keep an open mind. I think the one throat to choke sounds attractive. In the end you're to have a lot of throats and because cause it's just the nature of systems these days. But it is an advantage to the under one roof. But just keep in mind what you might be losing. That's all.

Daniel Litwin: 23:57

All right, Eric Soederberg, CEO of Sunrise Labs. Thank you for your time on the podcast. Always great getting to chat.

Eric Soederberg: 24:05

A pleasure. Thank you Daniel.

Daniel Litwin: 24:07

And thank you everyone for listening to this episode of Making Bright Ideas Work, a Sunrise Labs Podcast. If you like what you heard and want to listen to previous episodes, you can head to sunriselabs.com. Click on the news and events tab on the masthead and you'll see a dropdown there for the rest of our podcasts, as well as blog posts, events, and news articles. You can also find this podcast on Apple podcasts and Spotify. Make sure you're subscribing there and make sure you leave a rating and a comment wherever you're listening to your podcast content. I'm your host Daniel Litwin, the Voice of B2B. Till next time.