

Small Product Big Dream

In existence for little more than a year, Somnetics International Inc has managed to make a big impact with a small product. Clarence Johnson, president and CEO of Minneapolis-based Somnetics, is not all that surprised that a .94-pound CPAP unit would cause a stir, but three awards in the span of 12 months exceeded even his lofty expectations.

During that time, the makers of Transcend earned the Medtrade 2011 Innovation Award, the Medtrade Spring 2012 Provider's Choice award, and the Frost and Sullivan Global Product Differentiation Award in the sleep disorder breathing category. The honors validated what Johnson had deemed an "interesting technology" in 2009. At that time, he organized a group to acquire the intellectual capital that was able to effectively miniaturize CPAPs.

With his own energetic engineers putting on the finishing touches, the company launched the Transcend in October 2011. "People were a little skeptical at first," remembers Johnson. Specifically, many questioned whether the small company with the small product could compete in a land of giants.

Johnson freely acknowledges the sizable competitors outside his door, but a background as an entrepreneurial veteran has taught him to stay out of the big-boy sand box, at least for now. "We are not going to take away market share from the big players of ResMed, Respironics, and Fisher & Paykel," he says. "They do an excellent job, and we don't target them. We are a small company looking to serve patients who enjoy an active lifestyle. These patients see our device as an alternative that allows them to do that."

Johnson hesitates to call Transcend a "travel device," even though it can certainly serve that purpose. Instead of shoehorning a travel niche, the Transcend is aimed at those who camp, hunt, fish, climb mountains, or prefer to have a smaller unit at a second home. "Whether it's a cash sale or a primary therapy sale, it makes no difference," adds Johnson. "Patients really don't have a good choice right now other than Transcend, because everything is tied to a bedside and plugged into the wall. If you don't have power at 10,000 feet when you're climbing a mountain, you're out of luck. We have solar battery chargers.

We have opportunities for patients to live the life they want to live. That's our market, and we think that's a big population of patients."

Niche "Too Small" for the Big Guys The 30 employees who hone and market the Transcend and its accessories have gotten behind Johnson's vision, thanks to an energetic approach that seeks to maximize the advantages of a small company. With fewer employees on the payroll, a smaller market niche can be readily embraced.

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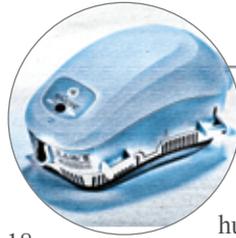
"While we expect to expand over the next 12 to 18 months, it's true that we can carve out smaller parts of the market—parts that are too small for the others to really go after," explains Johnson. "The big companies have a number of products, but it's difficult for them to market effectively into a small niche. It's easy for us to do that. We can capture small niches of the market that to us are big, but to them are too small.



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Most pieces of the pie have come courtesy of cash sales, an ingredient of the sleep business that has increased its viability thanks to the Transcend. The Transcend has been almost exclusively a cash sale item, largely because it does not have a traditional humidifier. As a result, DMEs and sleep labs have been hesitant to offer it to patients as a primary therapy device. As an alternative to traditional methods, Transcend offers Waterless Humidification,TM a heat moisture exchange technology that has long been used in hospital respiratory care. The patent-pending design works naturally with a patient's breathing



Transcend Sleep Apnea Therapy System

to provide needed humidification, but Johnson acknowledges that further education is needed for the system to acquire wide acceptance in the primary care realm.

Transcend's "game plan program" supplies free marketing materials to DME partners and sleep labs to spread this education. "We have a call center that gives advice on how to use the 'game plan,'" says Johnson. "We work with them as a coach to enhance sales. That has been effective in ramping cash sales with DMEs and sleep labs. There can be a paradigm shift away from only reimbursement-driven CPAP to cash sales outside of the Internet—where we sell a lot of units as well. The cash sale market is mostly for patients who are already on CPAP and are looking for an alternative to travel with, a CPAP for a second home, or an option that allows for uninterrupted power such as with our battery."

Global Reach, Long Term Strategy Somnetics International Inc is owned by investors who share a long term strategy that extends well beyond American borders. Transcend already has a global distribution network, and Johnson intends to expand that significantly in 2013.

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"We are selling our devices now pretty much around the world, and we'll continue to add products to our line," muses Johnson. "We do not have a short-term goal of growing the technology and selling the company, or anything like that. It is our intention to make Somnetics a viable operating company, in this market space, for the long term."

Info Box

Is Transcend a Carry On?

As a medical device, Transcend does not count as a carry-on item on airplane flights. Somnetics and others advise patients to never check a sleep apnea therapy device with baggage because it can be damaged through normal luggage handling procedures. Sleep labs and sleep physicians can provide patients with a letter stating the diagnosis and the need to carry the device. Advise patients to call the airline in advance to clarify procedures and in-flight policies.

