Life Sciences Revenue Management:

5 Must-Have Capabilities

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This Life Sciences revenue management eBook identifies the five ways Life Sciences companies should approach revenue management. These include strategic planning, accruals and gross-to-net, strategic analytics, contract authoring & collaboration, and managed care competency.

It would be safe to say that few industries have the tangled, idiosyncratic revenue challenges that face the Life Sciences ecosystem. To be fair, the Life Sciences category umbrellas three already complex industries—pharmaceutical, biotechnology, and medical technology. Add to this equation billbacks, chargebacks, complicated incentives, accrual management, intertwined revenue, tiered pricing, and utilization-, outcome-, and performance-based payment models. It's easy to imagine a lengthy chalkboard populated with Einstein-worthy mathematical calculations.

To that end, this eBook is designed to identify and prioritize the top five capabilities any Life Sciences company needs to manage its revenue efficiently and accurately. These five capabilities are the "must-have" essentials to do business profitably, in compliance, and in acting as a good financial steward to one's constituencies.

Adding Up The Top 5

Today's Life Sciences industry is experiencing seismic shifts. Companies across these markets are doing mergers and acquisitions horizontally and vertically in the value chain, such as insurance companies and retail pharmacies purchasing Pharmacy Benefits Managers (PBMs). As the marketplace evolves, the way pharmaceuticals get reimbursed is impacted. Different players and different owners mean changing the way contracts are negotiated, created, and executed.

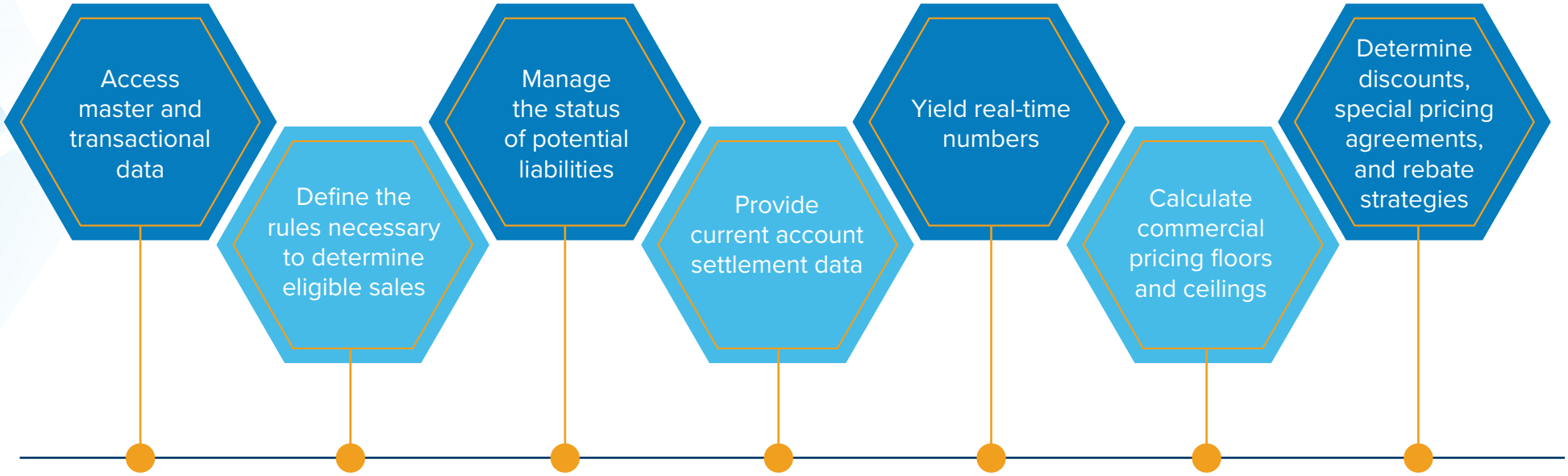
The key is in understanding the net price and then having the necessary analytics to determine actual program profitability. Are the programs being defined truly profitable? Do the programs need to be changed? What's the upside and downside to topline sales and bottomline margins? Analytics must provide insights into these areas so businesses can make informed decisions based on real insights.

1. Strategic Planning: The Navigation Tool

A strategic plan drives any Life Sciences company's journey forward. This plan identifies the measurable goals and the metrics to evaluate daily, weekly, monthly, quarterly, and yearly results. To develop the strategic plan, accurate data is necessary at the front end to define strategic models. On the back end, data analytics determine if the strategy was valid, effective, and driving the revenue goals as mandated.

Successful Life Sciences companies realize profitability through effective top-down and bottom-up strategic planning. The bedrock of accurate forecasting is having the ability to access real-time numbers. At a tactical level, revenue management best practices mean that companies can trust they will have reliable bid and contract planning, as well as analysis. Life Sciences companies need the ability to access their pricing to dynamically and accurate build and update their contracts. This efficiency foments the accuracy that protects companies from contract disputes, unhappy channel partners, and ultimately, partner churn.

To meet financial objectives, a holistic approach to end-to-end revenue management needs to consider these key areas:



When users can exploit their data, they can better develop price plans at an elevated level, creating more profitable pricing and program strategies. This data drives the development of strategic planning at many levels, including product group or brand, customer group, and accrual planning, as well as local, regional, national, and international price guidelines and governance.

2. Accruals and Gross-to-Net: The Window into Financial Trends

Life Sciences companies need accruals for financial planning and a window into expected revenue. Without accruals and gross-to-net intelligence, it is impossible to know where the financials are trending. To that end, revenue management processes must combine planning process integration and reporting to define and manage gross-to-net and accruals. The right processes enable users to develop accrual rates using multiple methods of data utilization, rules, and formulae. Users should have the ability to do the following:

- Plan accruals for chargeback / indirect sales and any type of rebate or fees; the rate can be planned as granularly as the customer product level.
- Once accrual plans are approved, generate a formal plan that is used to calculate actual accruals, such as the invoices generated; this gives users a clear view of net sales and accurate revenue recognition.
- Directly update the appropriate general ledger accounts; as chargebacks and rebate payments/credits are generated again, the appropriate accrual accounts can be updated.
- Use analytics to show accrual utilization and trends, assisting in true-up identification.
- Use all the top-line sales data and price concessions, rebates, etc. to show gross-to-net analysis at the contract, product, brand or customer/customer-group level.

3. Strategic Analytics: See the Forest and the Trees

For analytics to be useful and meaningful, they must be derived from real-time, real-world data. To simplify navigating through the data, these analytics should report on the source and status of all transactions, while also translating the data into understandable trends and forecasts. This fine-tuned data reporting produces predictive modeling, or 'what-if' simulations, to determine the likelihood of profitability when introducing different variables to any situation.

Life Sciences companies must conduct compliance management against their contract stipulations. This protects their profitability by ensuring their customers are purchasing what they agreed to purchase.

Customer stratification is another key analytic to consider, and the program profitability resulting within each customer stratification. The business intelligence synthesized by predictive modeling helps Life Sciences companies drive more revenue and further develop strategic pricing plans to achieve their defined financial objectives.

Robust strategic analytics will help a Life Sciences company define revenue strategies, execute against those strategies, and determine if the strategies provide the outcomes expected.

4. Contract Authoring & Collaboration: Partner-Friendly Principles

Integrated contract authoring is a powerful competitive advantage. Once the outcomes are defined in a strategic plan, contract development will stem from there. Any legal department should maintain a digital archive of reusable (boilerplate) contract clauses, content, and documents. This digital library should serve as the single-location, central data repository for all contract data, from the developmental phase through finalized contracts. The pricing engine should utilize these templates for contract development. The templates should be pre-loaded with pricing rules, compliance standards, and guidelines pre-set, per the strategic plan. These contract templates could then dynamically populate with the correct pricing based on per-deal analytics.

Users benefit from the ability to collaborate directly on contract development, including real-time discussion groups and contract redlining. Both parties should have visibility into the collection of data, distribution of statements, plus claims and rebate statuses. This level of transparency and visibility has the added benefit of minimizing disputes and encouraging harmonious relationships and partner longevity.

5. Managed Care Competency: The Pathway to Final Customers

Managed care, or managed markets, is an extremely complex part of the value chain in Life Sciences. The managed market partners do not actually purchase the product, nor deliver the service, but they do determine which products can be used by the final customer. Highly complex agreements are developed to manage this process. For example, rebate levels can vary widely, based on the number of competitors, and the structure of the formularies developed by the managed market players.

Manufacturers need the ability to analyze historical data and build planning models to determine the rebate models that will provide the greatest benefit. Once these models are executed in the contract, large amounts of data must be reviewed to ensure only proper rebate payments are made. This usually involves the ability to scrub the data to ensure only accurate data is used in the computations. There is a definite value to this high volume of data, because it can be used again in the planning cycle to determine if the current plans provided the necessary benefits, or if they should be adjusted during the next negotiation cycle.

The data also provides a high level of transparency to the process. For compliance and good channel partner relations, the data should reside in one system for the sake of auditability and transparency. Automating your contract authoring process enables your organization to collaborate effectively with channel partners, directly and in real-time.

The Critical Role of Software

Life Science companies that are supported by automated revenue management software gain a compliant, strategic advantage in the marketplace. By capturing data in a structured repository with machine-learning capabilities, Life Science enterprises get accurate answers and informed decision making in their revenue management strategies. Ideally, revenue management software is an ERP-agnostic tool that should include these fundamentals:

Strategic Planning
Real-time forecasting based on accurate data analytics and determined discounts, special pricing agreements, and rebate strategies

Accruals & Gross-to-Net
Accurate general ledger and accrual account updates, and reporting

Strategic Analytics
Data translated into real-time trends and forecasts

Contract Authoring Collaboration
Web-based, dynamically shareable, updateable digital contracts

Managed Markets
Transparency in rebate models and payments for partner longevity. In the end, accurate data will lead to insights, and insights will lead to profits. Vistex has a proven history of delivering automated revenue management tools to deliver intelligent analytics and effectively manage these processes.

Mastering the 5 Must-Haves

In conclusion, when a Life Sciences company seeks revenue management automation for growth and profitability, including these five essentials, this ensures a directionally accurate solution. Strategic planning forms the blueprint against which all metrics are compared. Accruals and gross-to-net numbers are tracked to provide valuable insights into the company's financial trending. Correctly forecasting and deploying rebates for managed care becomes the key pathway to attracting the final customers. Strategic analytics ensure informed decision making. Web-based contract authoring, and collaborations drive partner and customer transparency. Customer satisfaction and retention become a natural byproduct.

About the Author

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Bob Steller is an expert in Life Sciences revenue management, operational improvement, and information systems. With 28 years of experience — including 21 years with pharmaceutical companies — Bob leverages his deep knowledge of the industry's unique requirements to help clients streamline financial processes and boost overall performance.

Vistex Adds Value to Life Sciences

Today's Life Sciences market is impacted by scrutiny over rising costs, tighter innovation funding, proving therapy and product value, and complying with shifting regulatory mandates. Vistex helps Life Sciences companies manage the complexities of pricing, commissions, chargebacks, rebates, royalties, contract authoring, loyalty programs, and regulatory compliance. Vistex provides value to Life Sciences through revenue management, utilizing real-world evidence and outcomes by dismantling silos, validating and exploiting data, and identifying the most profitable plans for satisfying stakeholders.

About Vistex®

Vistex solutions help businesses take control of their mission-critical processes. With a multitude of programs covering pricing, trade, royalties and incentives, it can be complicated to see where all the money is flowing, let alone how much difference it makes to the topline and the bottomline. With Vistex, business stakeholders can see the numbers, see what really works, and see what to do next – so they can make sure every dollar spent or earned is really driving growth, and not just additional costs. The world's leading enterprises across a spectrum of industries rely on Vistex every day to propel their businesses.

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