



Think Again. And Again. And Again.

Can scenario planning radically redefine your Life Sciences business?

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In today's rapidly shifting environment, Life Sciences companies like yours must plan for continued volatility and disruption. Scenario planning is an essential tool for envisioning, anticipating, and responding to a range of events that can materially impact your business—both positively and negatively.



Table of Contents

Introduction: Like nothing before	4
The certainty of uncertainty	5
Past is not always prologue	9
Process for progress	10
Conclusion: Ask and ask again	11





Like nothing before

It sounds more like a science fiction movie than real life. The world has become increasingly interdependent; goods and people transit the planet more quickly and easily than ever. But then, a pandemic of mysterious origin tears through global society, creating the greatest public health crisis in a century. Demand outstrips supply for many necessities, such as medical masks, gowns, sanitizers, and APIs (Active Pharmaceutical Ingredient).

And just as the supply chain is stretched to the brink, a major shipping route is blocked, abruptly halting the transport of \$10 billion of goods, including pharmaceuticals and healthcare supplies. Who could have predicted all this?

The future is always going to be a mystery, but there are ways you can look ahead, think creatively, and prepare your business to weather uncertainty.

The certainty of uncertainty

Volatility in the business cycle is not a new phenomenon. Your ability to succeed increasingly depends on preparation, responsiveness, and agility.

Scenario planning is a technique that organizations can leverage to manage and respond to uncertainty. It's a tool that requires you to think critically and methodically about what the future may hold. Then you can develop proposed responses to various events and business conditions that may occur. In this context, a scenario is a potential circumstance that may have a significant impact—good or bad—on your organization. More simply, they are stories that narrate a possible future.

They expand your thinking to help you envision various paths and the different choices each one demands. By defining possible future scenarios and defining the best possible response to them, you can make better decisions today.

This decision process goes well beyond what should I charge for my product today or how much product should I produce in the next 6 months. You want to broaden the scope and look much farther into the future for shifts in the larger realm of possible scenarios such as geopolitical, major business shifts or potential environmental impacts.

These are the big, long view questions you must prepare for:

- ? What should the future of my supply change look like to be ready for the next pandemic or major global shift?
- ? Should I build it or forge a partner network?
- ? What would happen if healthcare funding changed in a major market or market group?
- ? How will we deal with the trajectory of global climate change?

No one has all the answers, but you need to prepare for multiple scenarios of each one. That is where scenario management comes in to play.



If you wanted to see the future you could not go to conventional sources of information.

– Peter Schwartz, *The Art of the Long View: Planning for the Future in an Uncertain World*



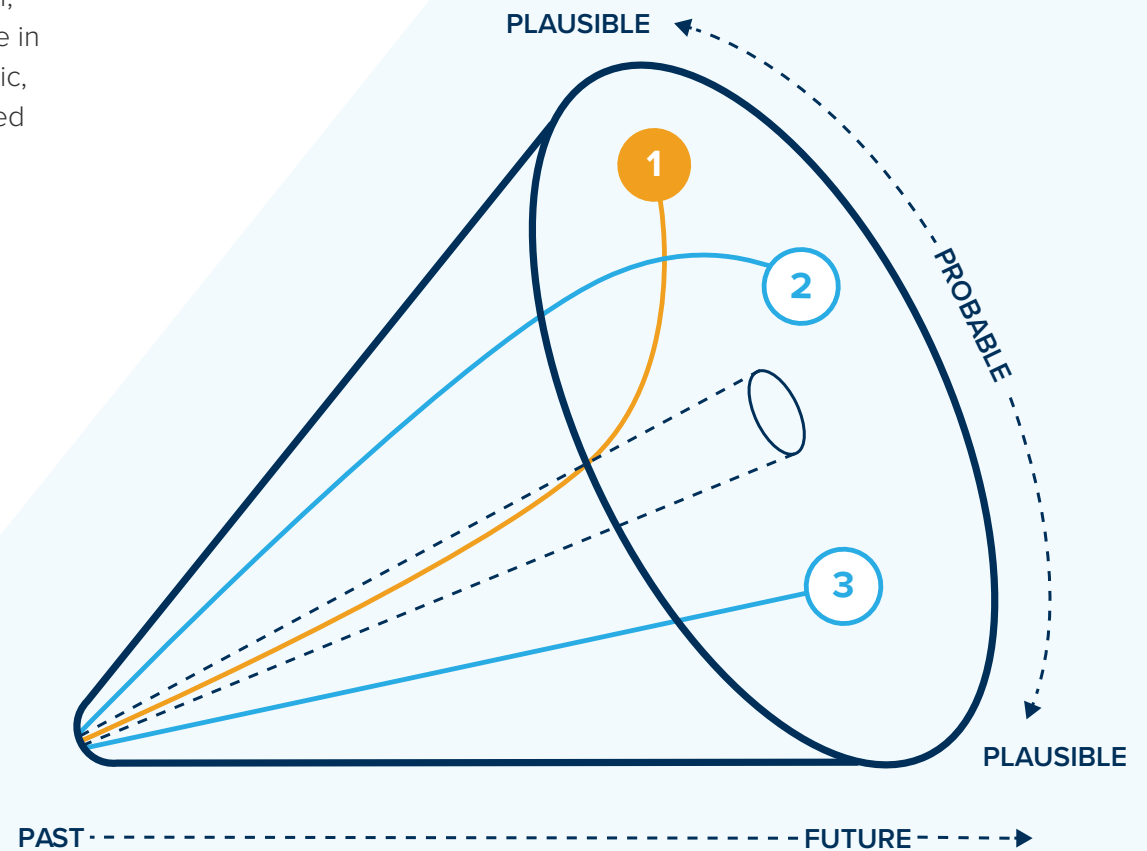
What does the future hold? The landscape for Life Science reimbursement will most likely change in the future due to the market and political pressure. What are the likely scenarios? What is their probability? What are some of the impacts to the marketplace?

Scenario 1: Status quo – no change from current processes

This is the most likely scenario in the short term; however, staying stagnate as others move forward is unsustainable in the long term. Barring any major issues past the pandemic, change will come in the next few years. What do you need to do to prepare? The time to start planning is now.

Your best course of action is to begin with:

Examining your expenses and reviewing all R&D projects.

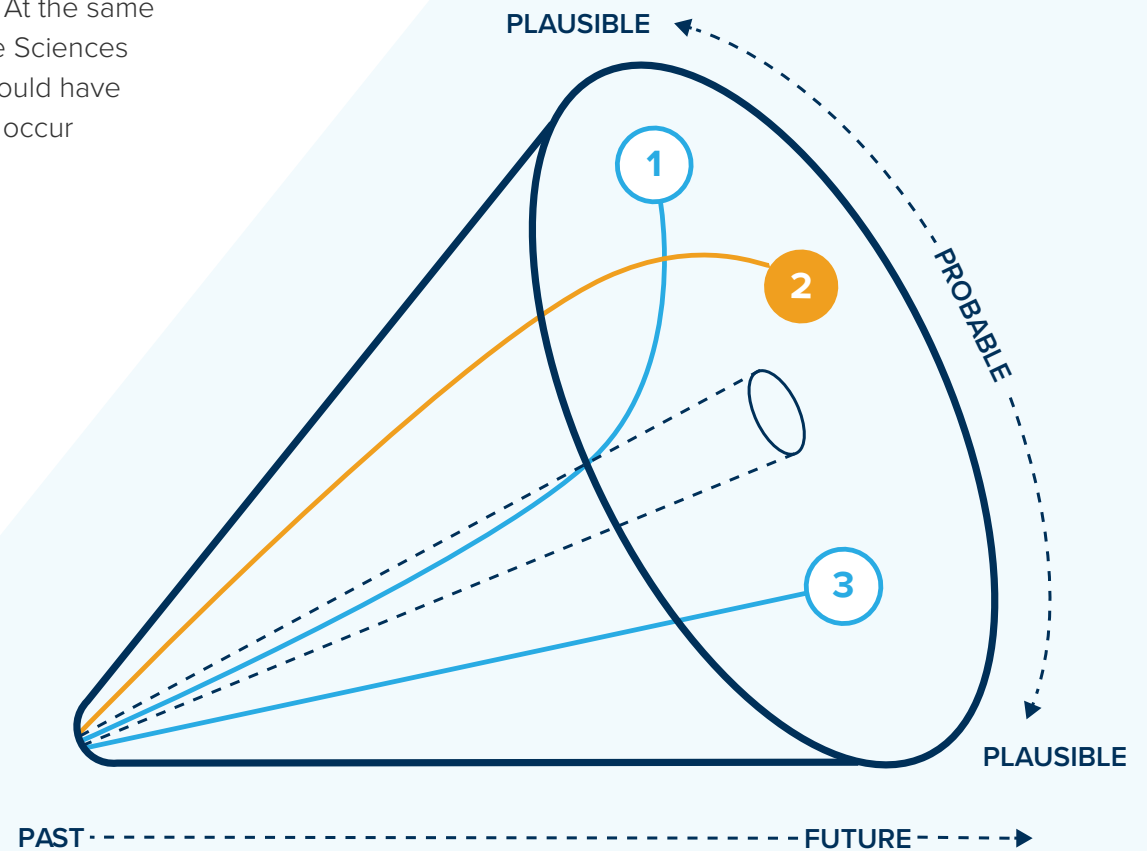


Scenario 2: Public option for people shopping for healthcare

This scenario effectively expands Medicare. The direction of implementation is heavily dependent on the state of the political climate. There are many details to be worked out before any progress happens. In this scenario, more people would have the ability to get insurance, driving up demand for products and services. At the same time, price controls would have a negative impact on Life Sciences and healthcare companies' income. This public option would have an impact on what and how much reimbursement would occur based on the Medicare plan rules.

Your scenario planning should answer this question:

How do you mitigate the impact on your business?

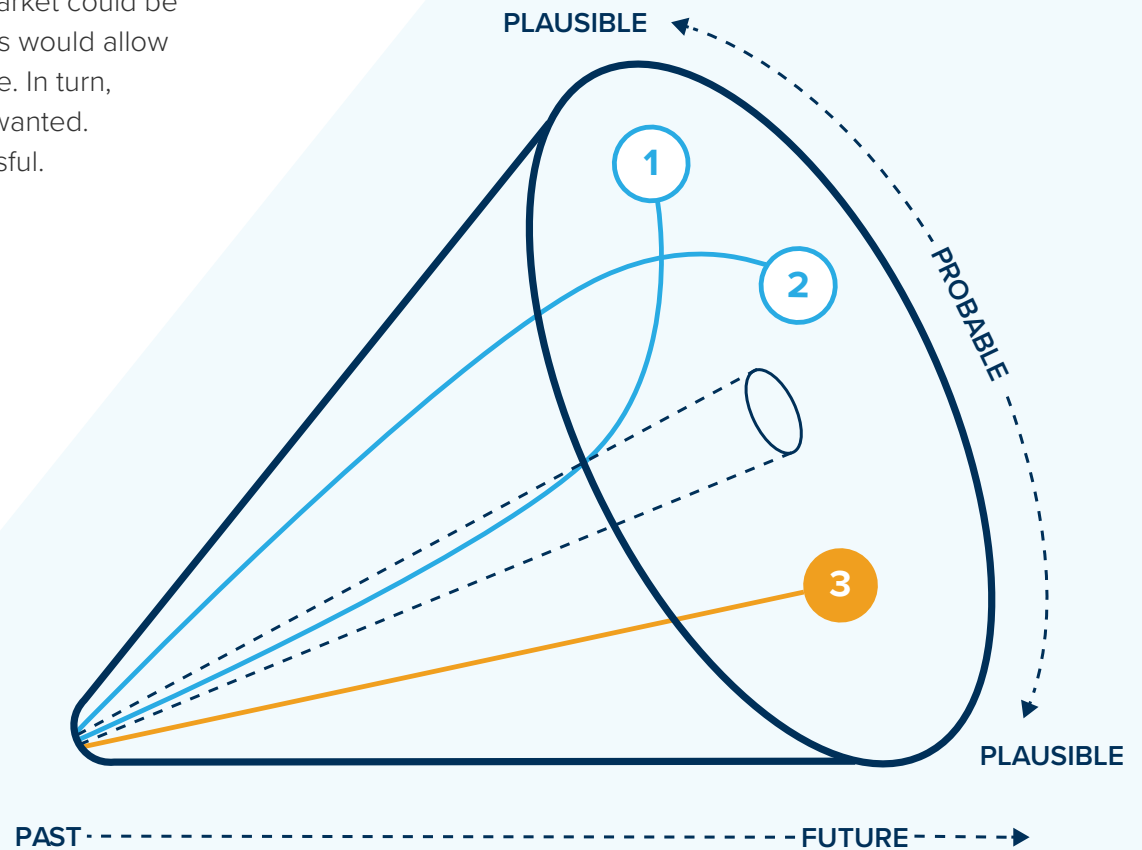


Scenario 3: Single payer system

In this system, all health insurance benefits are provided by government. This is a high-impact scenario, but with a very low likelihood of happening. The impact on the Life Sciences industry would be significant, namely lower profits. All pricing would be defined and mandated by a government agency. They would determine what products come to market. The key factor for determining what the government chooses to bring to market could be highly dependent on their view of cost effectiveness. This would allow the government payer to have a strong influence on price. In turn, this would drive down what the manufacturer may have wanted. Strong expense controls would be needed to be successful.

Your scenario planning should answer this question:

How would you cope?





Past is not always prologue

Humans instinctively believe the future will reflect the past. We make decisions and plan our actions based on the facts we know and experiences we've had. When the unexpected happens, this playbook no longer works, and alternatives must be considered.

80% of organizations set targets in relation to historical performance instead of future scenarios.

Source: Accenture

The whole process of scenario planning is to prepare for an unknown future and establish the action plans that will protect your business. Therefore, it's essential to plan for a range of possibilities to expand your readiness. As you develop your scenarios, probe into the reasons why the past might not be the best predictor of the future.

Process for progress

To increase your chances of success with scenario planning, be sure to follow these steps:



1 Identify key factors that can impact your business (positively and negatively).



2 Establish a range of relevant scenarios that depict potential operating models in these various environments.



3 Identify the most likely scenarios.



4 Assess the impact of each scenario on your business (revenues, margins, cash flows and capital expenditures).



5 Predict how your competitors might respond to each scenario.



6 Establish a plan which outlines business processes and actions to respond to each scenario. Mitigate risk while maximizing opportunity.



7 Identify trigger points that signal a scenario is coming to fruition.



8 Shift your processes and actions to those outlined in your scenario plan if, and when, these trigger points might occur.



Ask and ask again

The mere exercise of brainstorming scenarios helps you develop deeper insight into the main drivers of change in your business, your industry, and the world. Scenario planning forces you to ask difficult questions about this change and come up with hypotheses and strategic action plans to survive and thrive. To make scenario management as effective as possible you should review your plans occasionally. After all, the world does not stand still, and the marketplace is in constant change. The politics of healthcare change with each major political election swing. These types of condition changes are a signal that your scenario plans should be reviewed and updated. This will provide you with the greatest preparedness, responsiveness and agility.

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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.

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