

4 Steps in the Life Sciences Price Management Maturity Model: **Where Are You?**

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The ability to exploit pricing data for Life Sciences companies today is an evolutionary process. Examining sales spreadsheets and updating pricing data on a quarterly basis is a great start. It is important for companies to identify the distinct stages in price management maturity, each of which moves a company closer to the Holy Grail, a model-driven price management environment.

This eBook identifies traits connected to the four main stages of **price management maturity**, and will help you understand where your organization lies and how to direct your path to the next level.

Before your enterprise takes a hit to its self-esteem, just remember, Gartner recently reported that 91% of organizations haven't reached "transformational maturity" yet in exploiting their data and analytics. So, if you're not there yet, you're not alone.

In our experience, it's a three-to-four-year process from the point of building your data governance model to becoming ready for model-driven, embedded pricing management. Some companies take more time, depending on their ability to absorb the process into their culture, plus it takes having the right people in place to leverage the tools.

Adding Up the Four Stages of Price Management Maturity:

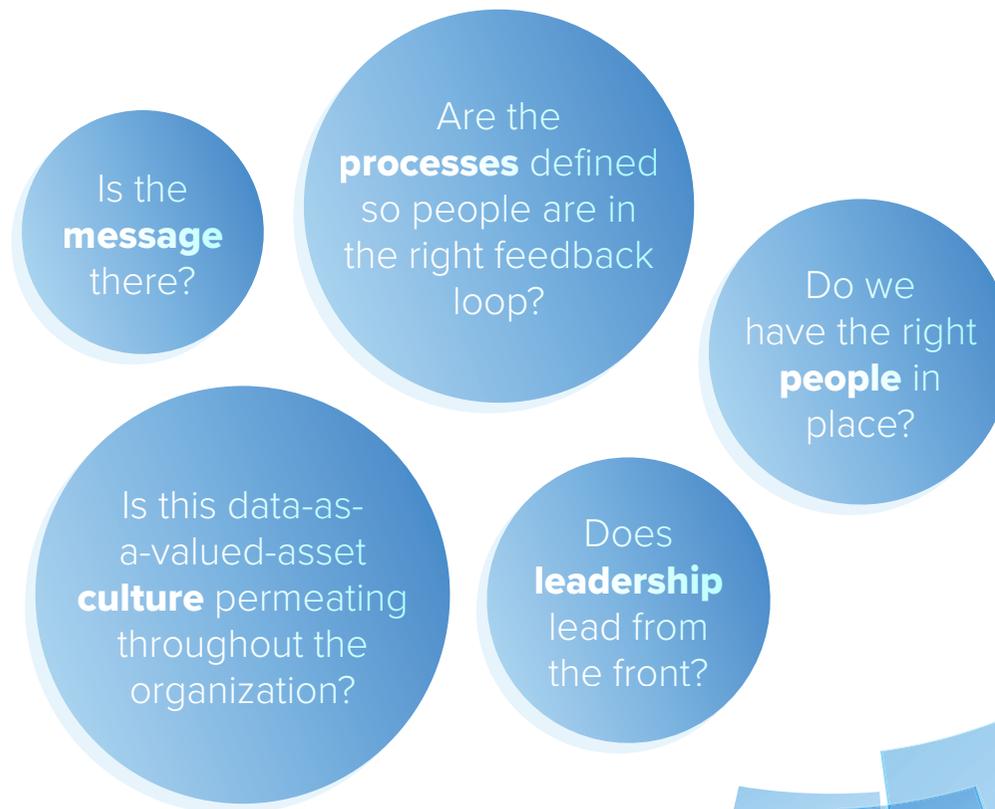
Stage 1: Basic Price Management

Stage 2: Pricing Management

Stage 3: Strategy Management

Stage 4: Model-Driven Management

To begin this journey, we must recognize that deploying Vistex software alone will not magically make price management happen. To achieve the best outcome, we've found it to be a combination of Vistex knowledge, the company's knowledge, and the company culture's adaptability to achieving the next levels. In assessing your organization's price management maturity, you should begin by asking some of these questions:





1. The Basic Price Management Stage

At the earliest level, companies will have basic governance, which is ad hoc and situationally independent. This may include a limited-to-no-pricing strategy. In terms of tech savvy, many companies are still using Excel as a tool, and using Microsoft Word to make contracts. If these organizations are using any analytics, they are likely from a spread sheet with no follow up or strategic analytics. Their analytics are basic pre- and post-deal analytics.

At the Basic Price Management Stage, product market factors are not heavily considered – they're not really looking at their competition. Market power has an impact on pricing strategy, but these organizations are not factoring in market power. Any impact on profitability is after the fact. When a company is not looking at pricing from a jurisdictional or customer-stratification specific, it is also probably leaving money on the table.

Not all members of management will know what is happening locally to meet local needs. A locality might say “We need to cut the price lower,” but someone in management should understand why *before* approving the price reduction and going below the standard prices.

Stage 1 Indicators

- Pricing strategy is based primarily on history
- There is no global strategy
- Product market factors are not heavily considered
- There is limited customer classification management
- Contracts and any analysis are managed in Excel
- Impact analysis occurs after the fact
- Reviews and approvals are ad hoc

2. The Pricing Management Stage

Once a company reaches the Pricing Management Stage, ideally, it has a global, regional, and local price, so pricing strategy is defined, but not fully deployed. Basic pricing and margin targets are defined. However, the management in each element has control, so long as it stays within those guidelines. If the managers have revenue management tools, they're mainly for execution of pricing, chargebacks, and rebates. They're likely using Excel for analysis. Their analytics now have progressed a little, but they're still looking at a historical view showing them "Here's what happened; here's what can we do differently going forward." They're looking backwards only, not forward.

Stage 2 Indicators

- Pricing strategies are limited to pricing floors, margins, and targets
- Not all managers have visibility and ability to meet local needs
- Deployed revenue management tool is mainly for execution
- Disparate data limits analytic capabilities



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4 Steps in the Life Sciences Price Management Maturity Model: Where Are You?

3. The Strategy Management Stage

At the Strategy Management Stage, there is a pricing strategy, and the beginnings of an ability to do relevant contract analytics. The pricing strategy has been defined beyond just prices, e.g., “Here’s the rebate processes I’m going to offer, and here’s why.” The pricing strategy is more global, controlled, and impactful. People have a shared understanding across the organization.

Now when the company receives a bid request, it has pre- and post-deal analytics, more specific to those deals. It can figure out why it provided a certain pricing strategy. There are feedback loops, approvals, guidelines, approval routings, and workflow routings. In certain jurisdictions like Europe, if there’s a price change in Italy because of local reference pricing rules, that could impact pricing in six other countries. If a company forces a lower price to a “tracking customer” or someone they define for government tracking purposes, if that price goes below the Veterans Administration (VA) price, then they may need to lower the VA price to ensure it meets government guidelines. The company needs to know what it is doing and its impact now. Analytics are escalated with a new level of self-awareness. The company is starting to ask questions like:

Is the overall program effectiveness giving us insight?

Did we end up paying out more in rebates and lower our net margins?

How much did that impact the bottom and top lines?

Did we still protect the margin on the bottom line?

In a gross-to-net scenario, what impact are those rebate programs having on the strategy?

Are we really being effective?

Stage 3 Indicators

- Pricing strategies are defined beyond just prices
- Rebate programs are defined and approved
- Bid management and deal analytics are fully integrated to revenue management
- Management controls are integrated and automated
- Analytics provide insights into program effectiveness

4. The Model-Driven Management Stage

The Model-Driven Management Stage is aspirational, because it fuels EBITDA performance. Here, the company has defined models – it knows the impact of certain decisions before it makes those recommendations. If the model is not adding value, it can adjust the model to achieve the desired impact. The model-driven decisions are made before providing that goal to the marketplace, which hopefully helps it save money by not giving away too much revenue up front.

The company also factors in how long its product has been out there and where it is in the lifecycle. It wants to know what happens if it follows a particular strategy. For example, is this market segment of customers considered to be stragglers? What can we do to bring our stragglers to purchase like our top customers?

Now the company has an automated revenue management and Contract Lifecycle Management tool in place, from front end to negotiating the contract and doing the analytics. The back end around government reporting is all integrated around one tool, and it has real-time feedback. Not only is it defining parameters, but now it has early warning systems. It starts using feedback loops and continuous updates, so it knows if a program is a bad idea. Instead of continuing it for the next two years, the company knows right away not to use it again. Optimizing its revenue means doing the right programs at the right time and dealing with customers effectively. It can have two or three effective programs, and one could start diluting the programs. The company could react to this situation more effectively. Organizationally, it is committed to doing this from senior management to line management.

Stage 4 Indicators

- Real-time models use multi-dimensional data, such as: market data, product lifecycle, and customer segmentation
- The company is fully integrated to revenue management and Contract Lifecycle Management (CLM) tools
- Real-time feedback loops assess the effectiveness of the pricing
- Revenue optimization (program, pricing margin)
- Organizational commitment to pricing excellence

The Critical Role of Software

Life Science companies supported by enterprise software to manage the full lifecycle of their pricing management strategies will have a strategic advantage in the marketplace. By capturing data in a structured repository, complemented with analytics capabilities, Life Science companies can gain accurate intelligence to make informed business decisions. In the end, information leads to insights, and insights lead to greater profits.

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 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 streamline financial processes and boost overall program performance.

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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