

Reaching the Peak:

Ascending to Revenue
Management Excellence
in Life Sciences

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adds up[®]



The pathway to disruptive revenue management

To get revenue management right, you have to get a lot of things right. Sell the right product to the right customer at the right moment through the right distribution channel...in the most cost-effective manner possible. Provide the right incentives, rebates or credits to drive positive customer behavior. Yes, it's an uphill battle.

In the aftermath of the 2007-2008 financial crisis, pharmaceutical companies faced unprecedented pricing pressure. Direct and indirect pricing controls became more complex. As companies all struggled with the same issues, the first generation of revenue management tools started to appear. But, as with most first-generation solutions, these tools focused on isolated processes, such as pricing, rebates, or tenders. Most were not designed with the end-to-end big picture in mind—nor the ability to adapt to future needs. Today, the industry still grapples with convoluted pricing models, which result in poorly optimized processes and, unfortunately, revenue leakage.

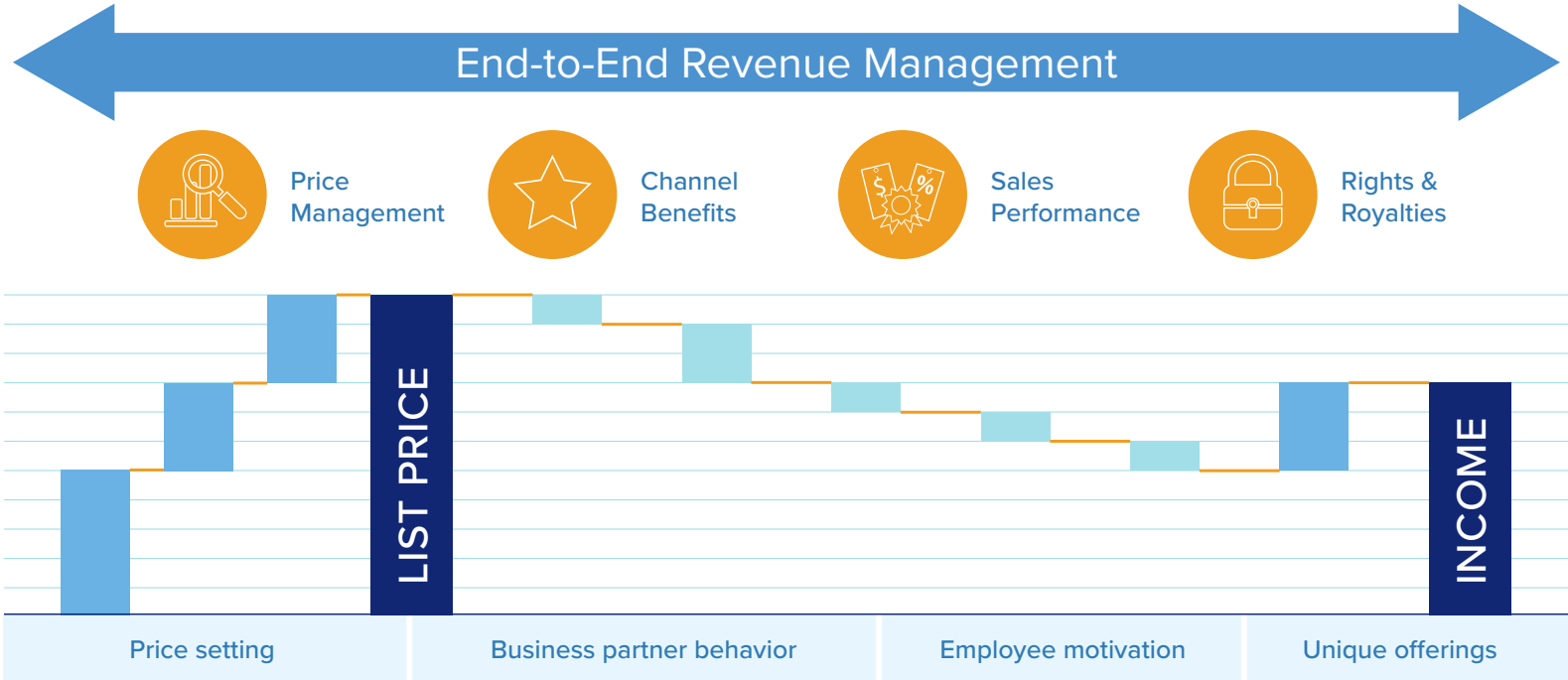
The elements of revenue management:

- Price Management
- Tender Management and International Reference Pricing
- Contract Pricing, Rebate Management, Chargebacks, Managed Entry Agreements and Claims
- Price Analysis
- Compliance Tracking and Management
- Accruals and Gross to Net
- Membership Management
- Government Pricing Management

Effective revenue management tools can:

- Identify and resolve unearned discounts and rebates
- Ensure correct pricing
- Maintain compliance with government programs
- Handle tender management
- Hold a database of global prices by product, geography, and customer
- Provide a real-time view of profitability
- Allow for effective internal and external collaboration and transparency

End-to-end revenue lifecycle management has emerged as a powerful methodology to effectively manage prices and maximize profit. Everything you do as a company to get your product into the market is part of revenue management. You calculate your prices with consideration of internal factors, but also external influences like competition and market position, international reference pricing, direct and indirect contracts, chargebacks, transfers, and customer chains. All of these elements determine your final margin. **Every element that affects your final margin is part of revenue management.**



Waypoints in the journey

There are five levels of revenue management success—from informal and reactive all the way up to data-driven and disruptive. If you want to move up the path, you need to start with a solid understanding of where you are, and a realistic vision of how far you can or will climb.

Level 5: Disruptive Management

- Revenue management is based on real-time models that utilize market data, product life cycle, segmentation, etc.
- Complex algorithms (predictive analytics, machine learning) and disruptive models are leveraged

Level 4: Strategic Margin Management

- Profitability and margin management include customer segmentation, different strategies based on targets, outcome-based pricing, etc.
- Continuous improvement methodologies are combined with innovative technology to achieve world-class performance

Level 3: 360° View

- Gaining transactional control
- Fully standardized and documented processes (commercial policy based on margin)
- Procedures and standards for revenue management are cross-functional
- Full value captured

Level 2: Defined

- Some standardized and documented processes (tender, rebates, etc.)
- Some margin management projects

Level 1: Ad-hoc

- No revenue management in place
- No standards or processes defined
- Reactive

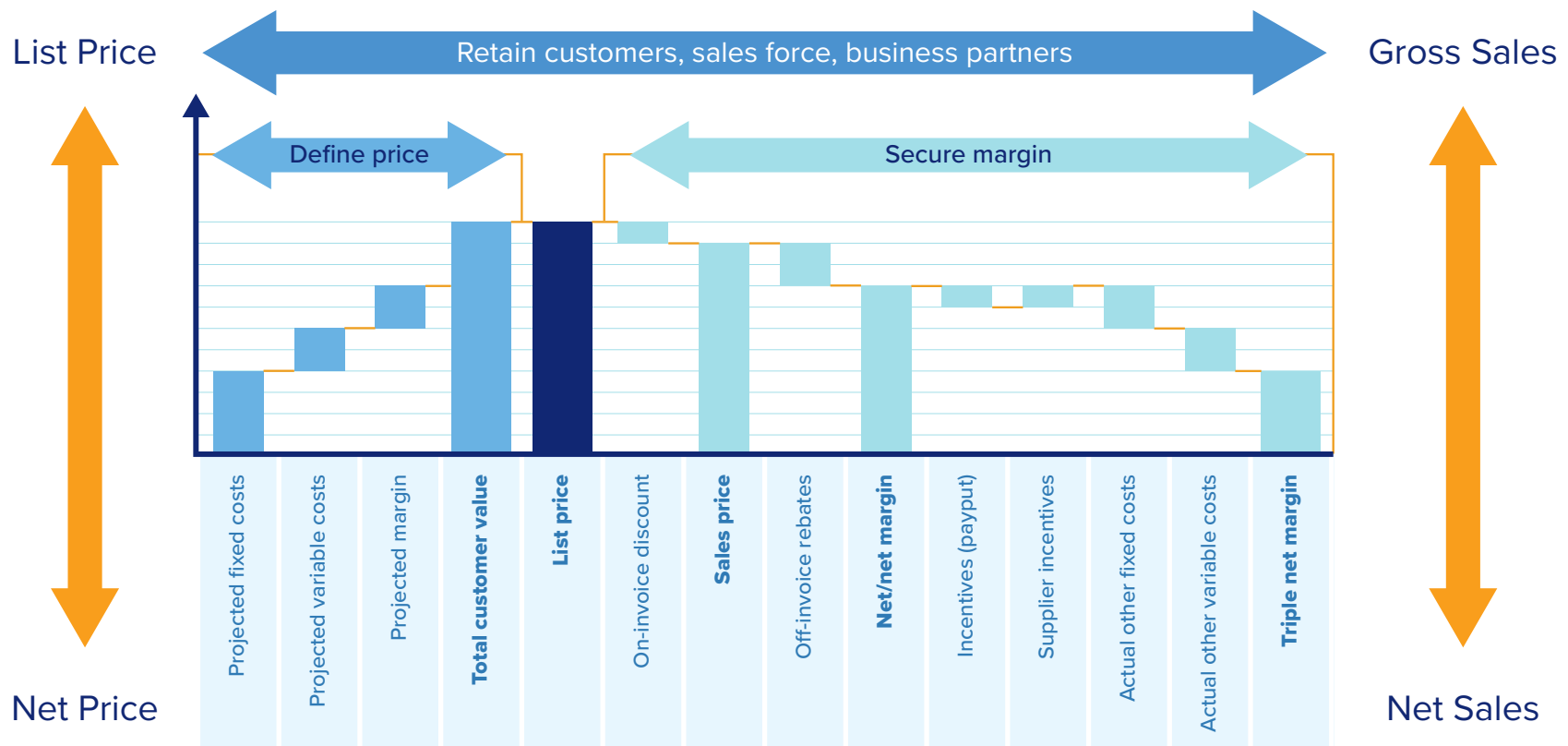


So how do you reach the summit and achieve predictive and disruptive **revenue management?**

The most successful organizations instill an end-to-end revenue lifecycle management culture. Margin optimization is at the center, and everyone in the business is responsible for margin optimization—it's not just a finance function. Upper management recognizes the highly transformational nature of breaking down functional and other organizational silos, so the CFO and CEO visibly prioritize pricing within the business as a strategic, cross-functional and urgent initiative. Board-level project ownership is also crucial, as it reflects a corporate commitment and provides the necessary impetus to cascade new ways of working down and across the business. Companies that can automate the entire revenue management process also gain the substantial advantage of efficiencies, workflow collaboration, process transparency, full visibility and auditability.



Traditional gross to net based on HOW



Traditional gross-to-net calculations tell you how much you're giving on invoice, how much you're giving off invoice and what you're offering in incentives. You are accustomed to seeing the gross to net based on HOW you offer incentives. For example, do you provide the incentive in the form of an on-invoice discount or in the form of a rebate? Neither form captures the intention—the WHY—behind the incentives. Let's say you give an on-invoice discount of 3% to a distributor and you want the distributor to pass that discount along to the customer. The intention behind this discount is trade activation. But what if you want the distributor to keep that 3%? The intention behind that discount is a supply chain incentive. These two purposes are completely different. Only when you have a strategic view and capture both the HOW of giving incentives, and the WHY, can you run successful analytics.

Vistex gross to net based on WHY

When you analyze why you provide incentives, you can identify two main categories: items you can control and items you can't. For example, if the government tells you that you must apply a pharma contribution of 7% or pay a mandatory rebate to the government, you have no control over this. But what about all the items you can control? You can decide if you want to give an incentive to a group of hospitals, or if you want to offer a better price to win a bid, or if you want to incent a specific distributor. That's why it's important to know in your gross to net—not only how you give incentives (on-invoice, off-invoice, etc.)—but also why. When you have all the information about what you can control and what you can't, you are able to make decisions that lead to more profitable actions.

	Gross sales	Example
	Mandatory/Statutory Terms	Mandatory/statutory/ government pricing
	Market access	Negotiated terms
	Tenders	Tenders, price equalization
	Commercial incentives	Product incentive, listing fee, etc.
	Trade terms	Sell-out activation, customer sponsorship etc.
	Incentives for supply chain players	WSD incentives, GPO incentives, etc.
	Net sales	Net sales

Succeeding in your journey

Progressing up the revenue management mountain requires information, planning and analysis. Once you understand the how and why of your gross-to-net calculations and you have a detailed, fully transparent view of your performance, you can progress from Level 1 (Reactive Management) and plant your flag solidly into the ground of Level 5 (Disruptive Management).



The Critical Role of Software

Life Sciences 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 predictive capabilities, Life Sciences enterprises get accurate answers and make informed decisions with 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 to determine discounts, special pricing agreements, and rebate strategies
- **Accruals and 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.



About the Author

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Alejandra Garitonandía specializes in revenue management for pharma and has a background in medical and business educational studies. During her international career, she has held different positions in business and IT. Her specialization is where business processes meet the IT systems and how to support efficient end-to-end revenue management.

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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