Life Sciences: **Revving Up Your Revenue Management**

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Life Sciences is, without question, one of the most complex industries. And its unique structure and unusual requirements make intelligent and effective revenue management difficult–and a critical capability for any company operating in the market space.

But what is the best way to manage the industry's complicated financial processes and idiosyncratic transaction types? The answer starts with robust analytics and smart strategic planning.

The Life Sciences industry is complex. That's why intelligent revenue management ensures it all adds up.

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How complex is the U.S. Life Sciences industry?

To begin with, Life Sciences isn't a single industry. It's three–pharmaceutical, biotechnology, and medical technology–plus more than a dozen sub-industries, including branded, generic, and biopharmaceuticals, biotech, medical devices (durable and consumable), medical nutritionals, and more.

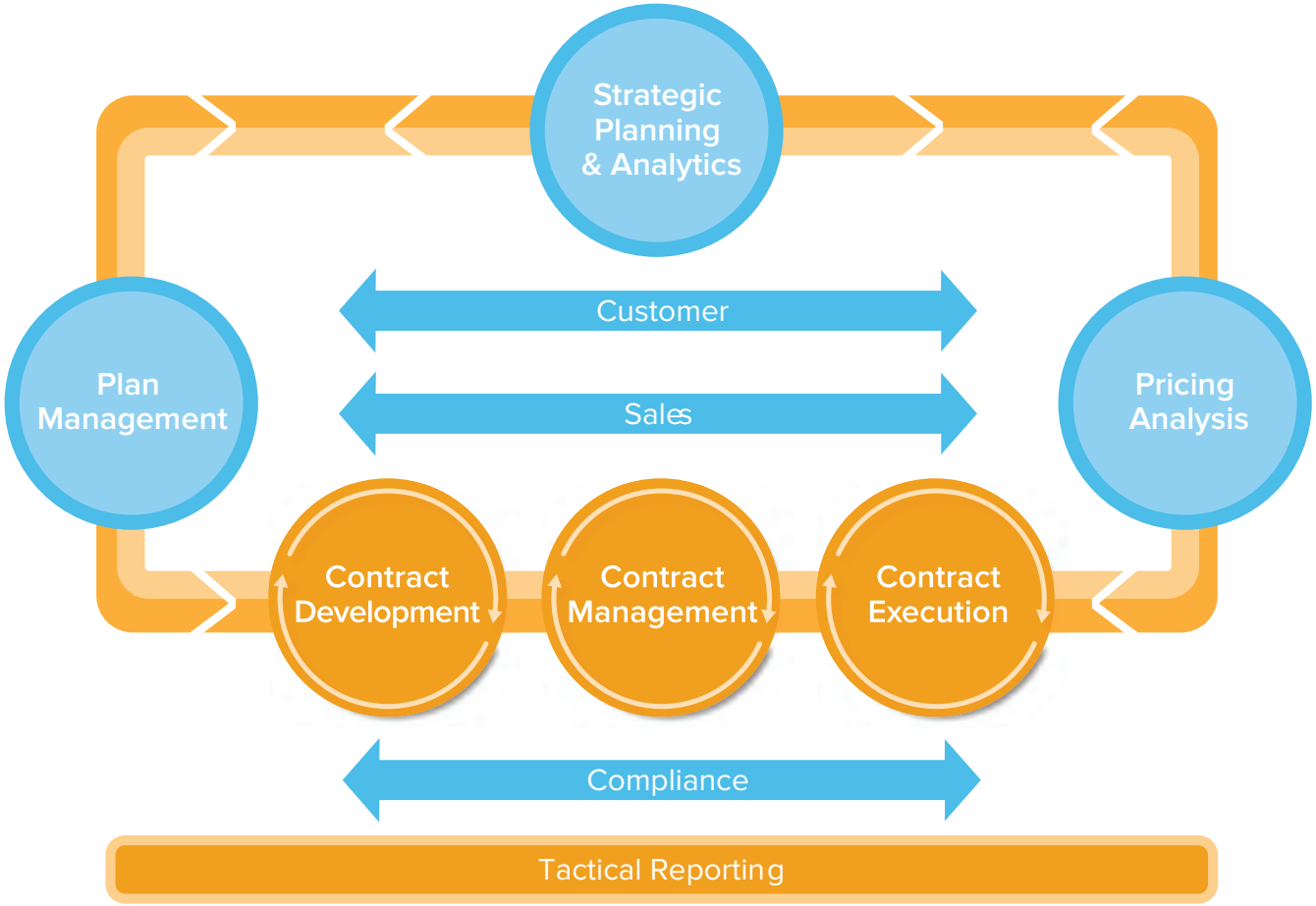
Thousands of companies–gigantic, big, medium, and small–operate in Life Sciences, producing thousands of products in hundreds of overlapping product categories. These products range from cancer-fighting drugs to food products. Distribution is multi-tiered, multi-channeled, and global. Customers in the distribution chain can be a variety of types of organizations, including wholesale distributors, group purchasing organizations, providers, managed care organizations, and government.

Did you know that the government is the biggest buyer of Life Sciences products through Medicaid, Medicare, and the Veterans Administration? It's true. And each system has its own pricing, regulations, and requirements. The Affordable Care Act has driven significant changes in the payer/provider landscape, adding new categories of covered lives, increased pressure on price controls, outcome-based compensation, and a move toward a wellness model.

This complexity results in the financial structures and idiosyncratic transaction types, including billbacks and chargebacks, complicated incentives, accrual management, intertwined royalties and utilization-, outcome-, and performance-based payment models. And that's where intelligent revenue management becomes critical.

Exploring the Revenue Management Process

To successfully manage programs and pricing strategies, Life Sciences organizations need an iterative process that includes multiple feedback loops. These loops ensure that the results of their program decisions are constantly reviewed and used to adjust strategy.



Analytics Means One Truth Drives Strategy

Advanced tools are required to efficiently and effectively manage the program processes—tools that directly access and utilize ERP data, to provide visibility, transparency, auditability, and most importantly, one version of the truth.

To know the objective, comprehensive truth about your organization's programs, revenue, and performance, you need the ability to look at all the transactional data your programs create. This data includes master data—such as customer, product, and contracts—as well as pricing, direct, and indirect sales, claims, rebates, and third-party rebates.

If you have an ERP system, you have integrated access to this information, and a direct connection to sophisticated analytical tools. If your organization does not have an integrated system, however, you need to centralize your data and create access. This will require:

- Building conduits to your transactional systems
- Constructing a datamart or data warehouse to structure your disparate data, and then
- Deploying an analytics solution.

Analytics can answer your key questions, quickly and accurately:

1. What is my true sales revenue and profitability?
2. Which products do we sell to which customers?
3. What is our true gross-to-net?

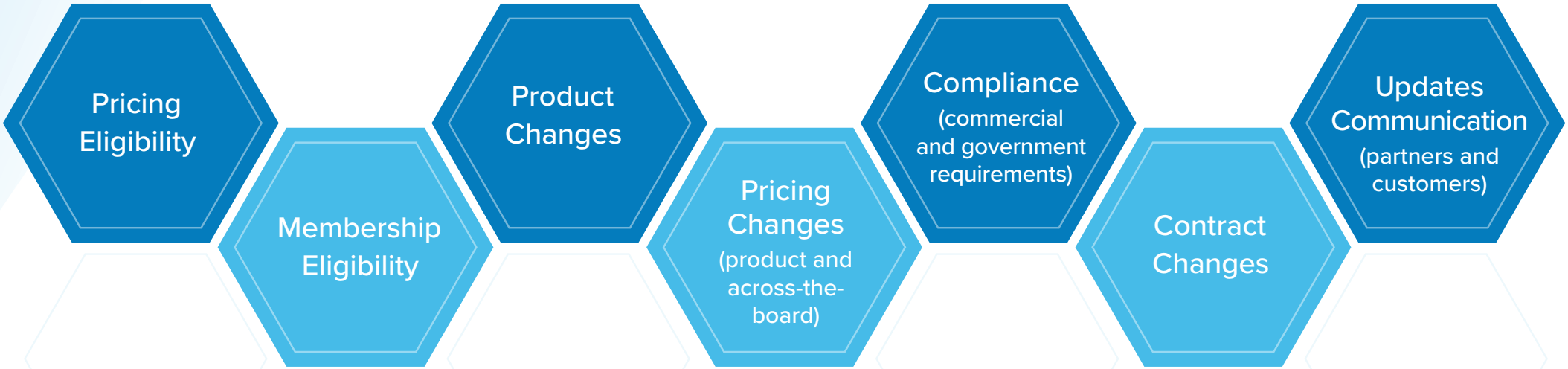
All of these may seem to be simple queries, but they're often the hardest for getting a complete and accurate answer. Only when you can analyze all your relevant data will you have the ability to see the big picture: You know which of your programs are the most effective, and just as important, which are the least. You know where revenue comes from, and which programs drove that revenue. You have a detailed and more nuanced view of the marketplace. And for all this business-critical information, you have the ability to drill down and discover why the numbers are the way they are.

What's more, when you have solid data, sophisticated analytics, and a detailed view of your performance, you have the information you need to plan, make decisions, and take action. For example, you can use this information to change your pricing strategy, set fact-based pricing and incentive floors and ceilings, find commonalities allowing you to group and segment customers and products, and continue, expand, enhance, or change your programs.

Developing Contracts with Your Strategic Plan as the Guide

When you have the knowledge, and a strategic plan based on validated information, the next step is to integrate that plan with your contract development process. It just makes sense. Your contract templates need to reflect the strategy you employ, as well as the way you interact with customers, your pricing policies, and other key considerations. This is a "holistic" approach to contract development. A best practice bakes in the strategic plan, informed by your pricing, marketing, and programs. It also integrates key functions input across your organization. But the job does not end there. Once a contract is developed, it has to be managed throughout its entire lifecycle.

The key areas to monitor and manage:



Plus, the accuracy of the underlying transactional data must be monitored and maintained, particularly the data definitions and transaction types. If either is incorrect—or becomes incorrect over time—the integrity and value of everything downstream (analytics, pricing, compliance, payment, audits) will be compromised.

Integrate Your Approach With These Components

- **DEFINED SUCCESS CRITERIA** based on plan
- **CONTRACT TEMPLATES** that automatically incorporate pricing
- **LIBRARIES** containing reusable contract content and documents–developed and maintained by Legal
- **TOOLS** to accommodate outside paper and manage legal review and review/approval process
- **PRICING ENGINE** with pricing based on the rules and guidelines set out in the plan
- **INTEGRATED COMPLIANCE STANDARDS** to ensure alignment with internal and external requirements
- **SINGLE LOCATION** for all content in development, final content, contracts in process, and final contracts

WORKFLOWS that push content, components and in-process contracts out to the people who have to perform reviews and provide approvals

ACCESS to the process for sales, legal, marketing, pricing, and all other stakeholders

Empowering True Numbers: Accurate Transactional Data

Successful contract development and execution requires accurate transactional data. And integrating that data with the contract process is a complicated undertaking:

1. The pricing engine must be able to accommodate and correctly apply numerous pricing scenarios
2. The system must enable easy, timely maintenance of master data and contract data
3. Accurate sales data must be conveyed to—and ingested into—the system in order to properly calculate accruals, rebates, fees, commissions, royalties, and chargebacks
4. Correct and complete indirect sales data must be captured to facilitate proper payment on billbacks, secondary billbacks, fees, rebates, commissions, and royalties

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How Do You Ensure Data in Virtually Every Calculation?

- A central data repository should be used to consolidate, store, and protect critical transaction information. This is an essential requirement, not a luxury. Be aware, too, that a secondary repository or data definition is required for compliance with CMS (Center for Medicare, Medicaid Services) and VA regulations.
- Collecting data from indirect sales—a common weak point—can be shored up with support for intake using EDI, spreadsheets, and flat-file formats. How files are delivered needs to be addressed as well. While having partners email this important data is an accepted practice, it is faster and safer to transfer data via a secure customer portal, or using EDI.
- Indirect claims must be validated using numerous criteria, including sender, product, customer, date, price, and quantity.
- All claims should be validated against known sales data.
- Provide data and statements to customers to give them the information they need to discover errors. Data can be delivered via EDI, portal, or emailed spreadsheets.
- Generate and review operational reports—aging, error-type, and data validity—to create additional opportunities to spot data problems.

When you have solid data, sophisticated analytics, and a detailed view of performance, you have the information you need to plan, analyze, and make decisions that lead to action.

Enabling Total Compliance

Integrated systems and focusing on accuracy go a long way toward ensuring compliance with commercial and government requirements. No matter which side you are working on, the requirements are complex. On the commercial side, you have tiered pricing commitments, rebate commitments, and many other contractual obligations that offer the potential for non-compliance. Real-time tracking is essential to ensure your customers meet the pricing and incentive requirements they are receiving. It also provides the ability to communicate and react to non-compliance in efforts to minimize revenue leakage and adjust your program, as necessary.

Government, of course, is where compliance is the most complicated, and a critical issue. As discussed earlier, best practices dictate that:

How to Manage Finicky Federal Compliance

Commercial contracts must be closely monitored to ensure they do not violate the pricing, contractual, or eligibility requirements of the Federal Supply Schedule (VA), nor the Public Health System (340B/PHS). Process automation is required to confirm that pricing and eligibility requirements are met, and that the process is effective in its ability to decrease the number of required price reductions. Reporting must be able to provide insights on core aspects of doing business with governmental units, such as price tracking, eligibility, pricing calculations and submissions. And finally, the system must allow for a detailed review of all data, offer full transparency, and provide traceability from source to Government Pricing to invoice to contract. Most of all, the system, its data, all calculations, and processes must be highly auditable, defensible, and repeatable.

Going further, processes built for government compliance should be agile and highly configurable to keep up with the constantly evolving regulatory environment. The ability to automate intake of state and federal claims, including claims for Medicaid, Tricare, and Coverage Gap from CMS is critical. Also, the processes should have automated capabilities to evaluate and validate claims, plus payment and error notifications must be automated and continually perform within regulatory timeframes.

Looking Closer: Adding Up the Advantages of Analytics

Of all the important processes in revenue management, analytics is the key. Without robust analytics, you won't know if your strategies are working, or how to improve them going forward.

But which are the most important analytics?

- All transactional data be kept in a single repository
- Data definitions are meticulously maintained and managed to be in compliance with the ever-changing regulatory landscape
- Pricing and eligibility must be maintained methodically and continuously

GROSS-TO-NET CALCULATIONS

GROSS SALES
– DISCOUNTS AND ADJUSTMENTS
= NET SALES
– MARKET INCENTIVES
= NET SALES
– COST OF SALES
= **GROSS-TO-NET**

CUSTOMER STRATIFICATION

HIGH SALES LOW MARGIN	HIGH SALES HIGH MARGIN
LOW SALES LOW MARGIN	LOW SALES HIGH MARGIN

- **Customer Buying Patterns:** Perform market basket analysis to discover commonly aggregated products and find opportunities for an up-sell.

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- **Pricing Analysis:** Drill through detailed data for each product—average selling price, low price, high price, and more.

- **Compliance:** Determine if your customer sales are compliant with program and contract requirements.

- **Program Review:** Verify if your pricing and incentive programs drive the sales you expected. Did your pricing or incentive tier structure give sales the lift you wanted? Did your customers buy more to reach the tiers?

- **Reviewing Data in Real Time:** Determine if your analytics are timely enough to show you market trends and enable accurate projections. Do they allow you to react in a timely manner to adjust your programs and protect your revenue?

Beyond price and customer analytics, it can be extremely valuable—and surprisingly revealing—to take analysis to the next level, through the lens of:

- Customer group
- Buying group/IDN
- Markets
- Product group
- Product system
- Companion products
- Year-over-year
- Quarter-over-quarter
- Year-to-date
- Program-to-date

A Deeper Dive: Adding In Strategic Planning Power

Comprehensive, multi-level analytics help you identify which of your programs are successful and, most important, provide you with insights into why they are successful. That critical information—coupled with your knowledge about structures, offers, goals, targeting, and strategies—can form the foundation for future plans.

Your plans will flourish when you take a broader approach. When you combine your internal insights with outside competitive data, you have a wide-angle view of your marketspace, know how your programs perform, see how your programs compare, and gain the opportunity to identify the gaps your organization can exploit.

The most effective, efficient approach is to build plans around your product and customer groups. Some groups may be obvious, such as product categories and customer categories, to name two. But the ability to perform a detailed analysis will help you to drill down and find unexpected commonalities and surprisingly productive product or customer groups. This will help you build a blueprint for targeting future programs.

Analytics offer insights into pricing, enabling you to set pricing floors and ceilings, prohibit (and limit) price exceptions, determine maximum percentages allowed on rebates, and more. Then you can apply these insights into your planning for rebates and incentives, make the impact you need on contract creation, and gain more control over your agreement arrangements.

There is no mystery to strategic planning: With the right analytical insights guiding your plans, you can identify the right strategies and programs and make more informed decisions.

An in-depth knowledge of your programs and markets will provide answers to these key questions:

- Which markets should be targeted?
- Which products should be included?
- Which customers should be eligible, and what are the requirements?
- Are tiers appropriate?
- What are the expected outcomes?
- What are the right prices?
- What are the right margins?
- How should compliance be determined?
- What are the rules and the exceptions?
- How flexible or rigid should programs be?
- Which offers will be the most successful?
- Which offers will be the most profitable?
- Are there competitive pressures in certain product or customer categories that must be addressed?
- What is the best way to track activities and transactions?
- What is the best way to roll up tracking data to provide a complete, accurate picture of performance?

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 Sciences 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 to determine 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.

About the Author

Bob Steller, Industry Principal, Life Sciences

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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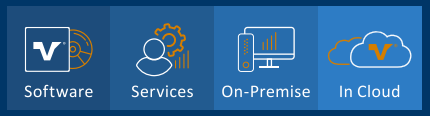

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