

Healthcare 2.0: Collaborating for Value

In this month's Perspectives, Model N's Gopkiran Rao explores in Q&A format how companies can not only achieve benefits from implementing Revenue Management within the four walls but also extend its reach to customer and channel partners in the evolving value chain.

Q: Improving my contracting or rebating processes is one thing; providing customers and channels with access to contract or pricing, customer performance, sales etc. seems too revolutionary. Is it practical to do this when I can't even get my finance or sales teams on the same page?

A: Let's begin with a basic premise; traditional models of drug and device, medical supply, and equipment purchasing are changing in line with other industry developments. Sophisticated buyers in managed markets, retail, institutional, and even government arenas are forcing greater transparency, particularly around pricing while seeking empirical 'evidence' of received value at each link in the healthcare chain. To their credit, sellers are realizing that there is no advantage in making it difficult for partners and customers to make informed decisions and so the conversion to openness has begun. This is happening across all sectors and all geographies as organizations focus more on delivering measurable value to their customers. These companies believe that investment in new products and new relationships have equal value and so they invest in systems and processes that allow them to maximize and protect this value.

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In contrast, companies that have business models predicated on gaming customers and partners or relying on traditional sales rep relationships are increasingly being weeded out. I believe the near term paradigm for healthcare and life sciences is one that both demands and makes possible more transparency between trading partners. What do I mean by this?

Digitization: The digitization and integration of widely diverse types of information is a reality. Datasets are expanding to include granular, albeit de-identified or properly anonymized patient or treatment outcomes data as well as clinical, product safety, prescribing, and procedural information. Elements of electronic healthcare records are even finding their way into cloud-based social databases as people get increasingly comfortable with stepping outside traditional privacy guidelines. The ramifications are important — a crowd-built database can either spread disinformation or can be

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included in well-defined methodology for collecting information for improving diagnosis, treatment review, and a near instantaneous feedback loop on everything from the primary care provider to the impact of an implanted pacemaker.

On other end of this paradigm are more traditional, enterprise-based transactional and real-time data sets relating to sales, scripts, utilization, and gross-to-net indicators such as discounts, rebates, inventory, returns, and chargebacks data. Many of these today are syndicated feeds or acquired from channels and point of sales. The benefits of an “uber” data model, albeit subject to both privacy and technical considerations that combines elements of all these data extends to creating powerful frameworks for not just analyzing markets and customers based on a more holistic understanding of customer potential, price elasticity and performance data, but also to build better relationships.

The true value of information lies in leveraging the information for shared understanding within a community of buyers and sellers of “return on contract” or “return on relationship” for a true win-win. By so doing, you take a managed care contract or a wholesaler fee for service agreement or a GPO agreement beyond just a legal relationship. Imagine a future where Revenue Management intelligence and decision making in marketing, sales, or customer service are no longer restricted by narrow sales force automation constraints or CRM boundaries while preserving impacting patient confidentiality or proprietary information concerns. Of course for this to take place the first step is making the move away from spreadsheets and filing cabinets.

Standardization: As channels, customers, products, procedures, and services multiply so does the need to standardize, store, and sort data taxonomies, data formats, and data interchange standards. With ever-expanding digitization, electronic distribution demands standard ways of describing, translating and communicating information. This requires both effective standardized communication protocols and formats. EDI, Web services, XML, etc. have now been around forever, but often companies suffer from having to work with custom formats and protocols initially based on standards.

In this respect, regulation, which is usually never far behind, may be the industry’s best friend for forcing improved standards promoting greater openness and sharing. Ultimately these will promote creation and use of composite dashboards, analytics and real time reports across not just the supply chain, but also the value chain. Today efforts range from identifiers such as GS1’s GLN (global locator number) for universal entity identification to the somewhat ill-fated e-pedigree initiative that was aimed at drug traceability and serialization. Master data management initiatives are also transcending organizational boundaries as trading partners see the benefit of starting small with global data mapping, error correction and real-time adjudication rule engines.

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Changing Culture — Customer and Channel Partnerships: Last and most critically, approaching channels and customers as partners as opposed to adversaries is no longer a luxury but rather becoming a necessity. One of Model N’s pioneering customers has an interesting take on this topic. It sees ongoing investments in evolving sales efficiency and effectiveness within the company’s sales force as building a community of enlightened sellers focused on customer satisfaction versus an army of reps selling branded devices or drugs.

To me, the most elegant aspect of this simple idea lies both in the notion that transactional parties are partners and not adversaries and that information sharing between two or more very different organizations can be achieved without replication or onerous manual intervention. If you focus on building on trust, the reasoning goes, then even contract compliance information becomes a tool for mutual benefit.

For example consider a customer relationship where a manufacturer rep facilitates real-time visibility or reporting on contract volume tier achievement for an acute care facility or diagnostic lab so they can monitor exactly how far they have to go to keep a committed discount threshold or gain a performance based rebate. Perhaps the facility wants to know if it makes economic sense to move from a rebate plus discounting contract to an order quantity purchasing agreement because it is adding an OR? Should it renegotiate its local contract or move to a GPO agreement? Can it gain additional value from the manufacturer’s supply chain expertise for lab inventory control? Similarly consider the value of a manufacturer trade management group providing wholesalers with Web reports to look up disputed chargeback information, filterable by discrepancy amount, reason code, contract number, customer or product id? Consider the amount of time and efficiency saved from not having to process reconciliation reports each month or quarter and the endless review and dispute cycles often centered just on getting the report in the right format?

The immediate impact of both scenarios is win-win for both sides, with waste elimination — in process, data ETL, reporting, and dispute management — creating efficiency all along the value chain. The revenue benefits may be even more significant as errors are reduced, loyalty is built and incentives are aligned with performance. By marrying the willingness to share partner information with pull or push data delivery you improve customer relationships while taking back control of maverick selling, discounting, and post-dispute management.

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How can companies get started?

Here are some practical steps:

- Benchmark processes against industry best practices
- Consult with industry peers on how they are resolving some of these issues
- Undertake an assessment type exercise either internally or with external help to identify the barriers whether organizational, systems or people
- Educate executive audience on the business impact of change; incorporate economic impact and command and control potential
- Implement practical feedback and a two-way loop with influential non-corporate teams – sales, regional, or local management – and external partners – wholesalers and customers
- Talk to analysts covering the space or regularly evaluating the leading solution providers such as Model N

Where is this happening today? Let me give you an example of an industry where everybody knows everything about each other's products and pricing. In this sector, manufacturing has moved outside the country, companies can't introduce products fast enough, and consolidation for access to new technologies is rampant. Sound familiar? I am talking about the High Tech industry and the electronics components sector in particular. Should we consider ourselves lucky that the Life Science industry is not there yet, or are we? Well here's an interesting take-away from this example. In his panel session at AMR Research's Healthcare Exchange 2009, Model N CEO Zack Rinat asked some of the 60 plus healthcare executives in the room this question: How many of you would be willing to exchange your margins with the margins of the type of High Tech manufacturer or distributor described above? Three, perhaps four hands were raised. He then asked how many of them owned a cell phone, smart phone, or PDA? Obviously, almost everyone had their hand up in response.

The reality that he went on to point out — to some uncomfortable laughter in the room — is that in this highly competitive industry, the company that makes the batteries that go in these devices has gross margins of 78% even though its pricing is transparent to its customers and competitors. This is far better than most of the companies in the Life Science industry. The question for us then is if High Tech can do, what will it take Life Sciences to get there?

Q: OK, who convinces the provider or customer to participate in this new paradigm? What is the Revenue Management ROI for my customer?

A: Well, let's talk big picture for a second here. Until last month we had eight different healthcare reform initiatives winding their way through Congress, all seeking to provide better care to more people for less cost. Even with the recent loss of the Democrat's filibuster-proof majority threatening to derail or alter final healthcare legislation, the reality is healthcare is already eating up 20% of U.S. GDP today, is ripe for a version 2.0, and will see change ripple through all elements of the value chain. Much of the focus will be on cost and quality. How can you get cost down and quality up while catering to a growing (and aging) patient population even as personalized medicine, diagnostics, preventive care, and increased site-based treatments become more in demand in the near future?

Without attempting to put yet another panacea on the table, one way is to incentivize performance over volume for all stakeholders across the healthcare chain. What do I mean by this? For example, every discount or rebate paid by a manufacturer to a hospital,

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wholesaler, or pharmacy benefit manager (PBM) or every payment made to a prescriber or surgeon could and will be linked eventually to some expected, measurable outcome. Every reimbursement dollar covering a drug or procedure or embedded device should and will likely be linked to a measurably improved health benefit. Every pill and injectable drug should show evidence of superior therapeutic value. For government agencies and private healthcare organizations, the decision to put drugs on preferred or even single formulary status or utilize a new device may be directly tied to efficacy data for that product and driven less by volume discounts or rebate considerations.

Today these improved outcomes are happening and in some cases even getting captured, but they are not being captured in a form that allows for this information to live outside some database or departmental silo. A VP of corporate accounts, managed markets, or reimbursement strategy must rely on incomplete or lagging syndicated data. A materials manager must rely on an antiquated hospital MMIS. A wholesaler is forced by antiquated systems to rely on just-in-time processes simply to get consignment information or hospital inventory data calculated.

By finding ways to collate, distribute, and incorporate this information into contracting relationships and deal negotiations you make pricing less a matter of contention and more a defined set of well understood, almost mathematically related elements. Prices get tied to outcomes and clinically differentiated value as do reimbursements. Other cost to serve factors get pulled in to showcase the competitive advantage such as delivery, packaging, shelf life, service and warranty standards as well as value added services like training and inventory management. The overall cost to serve becomes also the competitive differentiation.

The end result for vendor and customer alike is that communication is a lot straightforward when it is based on finite, measurable indicators so the rep does not have spend valuable time calculating market share perched on a footstool counting the kits sitting in the hospital's store room or the procurement manager is ordering 30X the normal daily volume on the last day of the quarter to nail the end-of-year volume order rebate.

Q: How do we get there? How do we overcome our own organizational barriers before we can even communicate with our customers or partners? ?

A: There is obviously no scientific formula to get there. You can't simply add three parts change in culture, three parts process improvement, and four parts technology to the beaker. The answer is not simple or it would have been by every company a long time ago. The good news is that the piece parts are there. The technology for example is there today. It is proven, it is built for the industry and the business process, and it is well past the early adopter stage. Many of Model N's customers have had integrated Revenue Management systems driving 100% pricing accuracy and contract and rebating compliance measurement and visibility for years.

But you can't simply drop in the system and turn on the switch to get running. You have to be patient to get training on best practices and improved data management completed or SAP custom code and the bastardized legacy, classic contracting system sunset. Of course I cannot emphasize enough the importance of a committed set of executive and

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operational champions with the vision for change and the willingness quantify and drive change. However, I encourage companies not to confuse this idea of change with trying to do a big bang Revenue Management implementation in one fell swoop. Some of our most successful customers have implemented the big picture by approaching the solution in small steps.

For example, consider how a top 10 pharma manufacturer has approached a vision where information flows in distinct processes but all needed information is continuously interacting at key intersections of these processes at any time within the overall revenue cycle. Well defined business rules, automated workflows, validations and notifications govern elements as diverse as Medicaid liability forecasting, offer development, chargebacks validation, rebate calculations and payment and government pricing best price checks. Some very and quantifiable practical benefits result. One is the real time assessment at point-of-creation of every deal or offer for class of trade qualification, profitability, best price and ASP risk. Another is the ability to dynamically allocate scrubbed sales lines to rebate and fee programs while facilitating checks against pre-set accruals. Another is the ability in real time to drill down from a territory, or contract to specific customers, products and transactions for understanding impact of pricing errors, MSP violations, gross to net erosion and even effectiveness of new product introduction or price increases.

The benefits of an underlying data management platform that accommodates new datasets and a time tested formula-builder based approach to accommodate new business rules and validations also make this approach future proof. For example over time as evidence-based or outcomes data become part of the standard contracting toolkit, it simply becomes another set of data that are pulled into the revenue management process and integrated into business rules, contracting templates, workflows and analyses.

For all this to be possible we are talking about leveraging far reaching investments in solutions that allow the manufacturer to focus on extending out-of-the-box best practices and leveraging people expertise and in-house IT for long term self-sufficiency. How do you get field sales, national accounts, marketing, and pricing and divisional executives to cooperate? Setting common goals and aligned incentives, tying them to corporate objectives and implementing analytics and cohesive processes to achieving the stated value proposition. Once this is achieved you can then start extending the benefits of improved visibility to distributed organizations within and outside the enterprise leveraging common, established analytical tools and reporting mechanisms. Whether this means assembling a cross-divisional RFP response or an initiative to conduct a voice of customer study that drives better segmentation, the results are usually very visible and dramatic as some of these examples show.

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