Preparing for the Future of Life Sciences with Expert Revenue Management Software

Examining the perspectives of Gartner and IDC Health Insights

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With an industry on the cusp of rapid growth, innovation through IT seems to be the way every life sciences company looks to build a competitive advantage. To accomplish this, manufacturers are offered a myriad of supposed revenue management software options, which are often far from being a comprehensive solution. Recently, IDC Health Insights and Gartner each published their views on choosing the best revenue management software vendor. Each article emphasizes key points manufacturers should consider, though both articles lack the necessary context of industry expected growth combined with inadequate IT resources, which fully illuminate the value of having best-in-class revenue management software as an integral part of a comprehensive digital strategy.

In the short- to mid-term, both MedTech and Pharma companies are poised for explosive growth. Driven by the 3.5% growth of the global population, the expected surge of mergers and acquisitions (M&A), and justifiably higher prices of more complex products, the future of life sciences looks bright. In fact, the global life sciences industry is poised to reach 1.6 trillion dollars by 2020 through a record number of new product approvals accessible to more patients due to global wealth growth among a rapidly aging population requiring advanced medical care.

President Trump's expected tax holiday on overseas revenue will also give American manufacturers a break in paying the traditional 35% tax. Approximately 1.3 trillion dollars of extra cash will motivate M&A spending and further impact R&D productivity and innovation, according to industry analysts.[1] By combining the best science of the merged companies, the expected result is a rejuvenated approach to obtaining more drug and medical product approvals. Unsurprisingly, the fast-paced growth of the industry fueled by the extra cash on hand will result in additional manufacturer woes in the form of a burgeoning amount of critical data needed to be expertly processed and analyzed.

These internally generated data challenges will only be exacerbated by other upcoming externally induced data shifts, such as changes to the European Union's regulatory requirements for medical devices, the increasing use of companion diagnostics, and global as well as US price transparency. Each shift represents a substantial effort required to process complex data quickly and efficiently, a task that is already overwhelming to internal life sciences' IT infrastructures.

Clearly, taking advantage of appropriate experts and scalable technology is the only path to wrangle the necessary information. Naturally in preparation, many companies are focusing their efforts on moving their ERP and CRM software to the cloud. However, the familiarity and ubiquity of these systems seem to detract executives' focus from what is the key to market success of any life science product. After all, unlike ERP and CRM systems, Revenue Management systems process all types of information necessary for extensive market access. Why is it then that a solution meant to maximize revenue continues to be an afterthought and not an integral part of a comprehensive digital strategy?

Corporate Dissonance

Though 85% of industry CEOs believe that IT will be the foundation for innovative strategies—thereby reshaping the competition within the next five years—IT rarely has a place on the executive decision-making team. According to the IMS Report on IT Use, "The role [of CIO] has not been elevated to the C-suite, with less than one quarter of CIOs being part of the company's executive team, and only 14% at large companies."[2]

Instead of focusing on innovative digital solutions, IT is tasked with supporting the day-to-day functions of the company, addressing issues reactively rather than proactively. In a survey conducted by IMS Health, 22% felt that IT's role is limited in leadership and is primarily meant to "keep technology running," while 44% agreed that they "execute projects on behalf of the business."[2] New technological advancements in tandem with the rise of cloud-based approaches add further stress to hiring individuals who possess a specialized skillset.
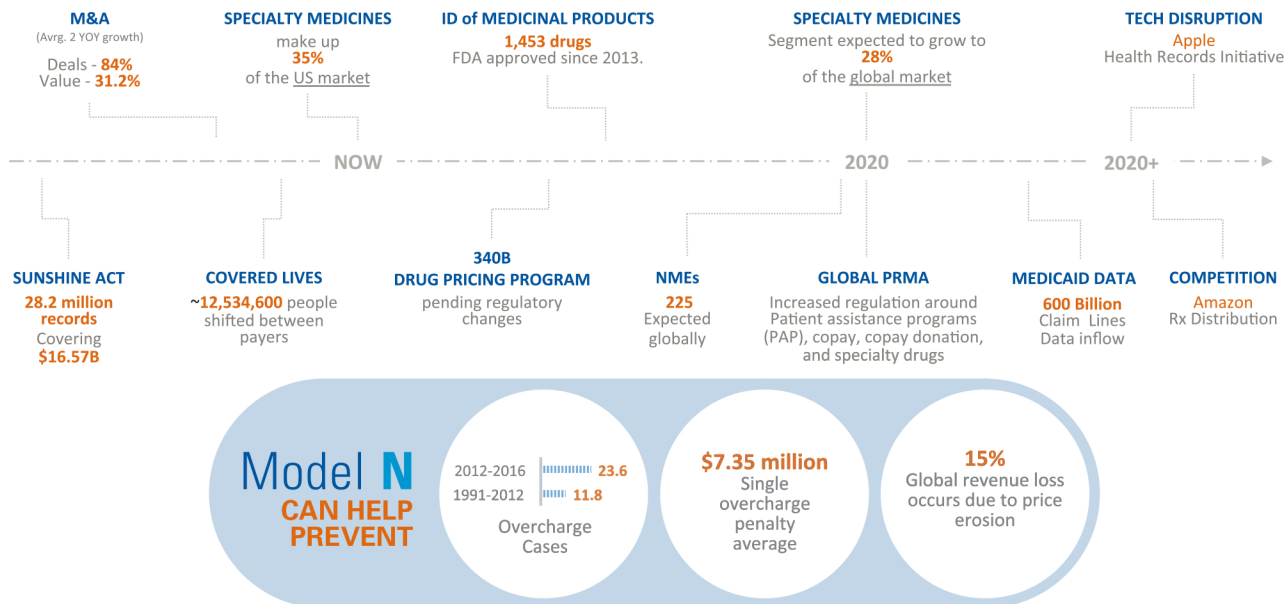
Interestingly, even the 31% of companies surveyed that utilize their IT department as a "partner in innovation with the business lines," revenue management cloud migration was not prioritized as part of their digital strategy. In fact, 38% of all current life sciences systems reside in the cloud but their function is primarily limited to CRM and ERP. Undoubtedly, companies focusing solely on CRM and ERP solutions will face revenue management challenges and a future devoid of comprehensive digital strategies. IDC Health Insights offered best practice advice to optimize revenue management in light of evolving ERP and CRM applications and explains, "as mission-critical enterprise applications such as ERP and CRM begin to take advantage of modern technologies such as cloud computing and analytics, wouldn't that strategy also make sense for revenue management and other applications that must interact with them?"

IDC Perspectives

As one of the most thorough and comprehensive research firms that emphasizes in forecasting key IT markets, IDC Health Insights offered their views on the necessity of using a cloud-based approach to maximize revenue in life sciences. "Eventually the efficiencies of SaaS, including revenue management, will become so compelling that every company will migrate to the cloud, so it's really a question of when, not if," said Michael Townsend, Research Manager for IDC Health Insights.[3] "Many IT and line-of-business decision makers are coming to view SaaS as a strategic advantage rather than a cost. Companies are also starting to realize that security is higher in cloud installations, including for proprietary data storage."

Townsend also advises companies to invest in a revenue management SaaS system that is user-friendly and is backed by "sufficient technical expertise and life sciences industry experience." While these are key components to running a successful system, relying on "sufficient experience" just isn't good enough because it no longer leads to maximized revenue. By having experts focused on continuous innovation with a system optimized to fit specific needs, manufacturers will experience maximized revenue.

Continuing on a leadership path, Model N recognized this and introduced Revenue Management as a Service (RMaaS) to close the expertise gap. Model N's global market expertise is substantial as it spans nearly 4,000 years of combined experience across 1,000 employees worldwide, focusing exclusively on revenue management.

Model N CAN HELP PREVENT

2012-2016 | | **23.6**
1991-2012 | | **11.8**
Overcharge Cases

$7.35 million Single overcharge penalty average

15% Global revenue loss occurs due to price erosion

Gartner Perspectives

Comparatively, Gartner's "Market Guide for Revenue Management in Pharma and Biotech" explores different vendors in the revenue management market and is a guideline catered to CIOs. In the analysis, author Stephen Davies, research director at Gartner, recommends migrating to a current revenue management solution "only if the return on investment and the increase in business capabilities driven by the upgrade justify the implementation effort and change disruption."[4]

While this approach may solve short-term issues—such as upfront migration costs—that solution is short-lived and will only lead to more complex and more expensive issues in the long-term. Drug patents span 20 years and market authorization times are becoming increasingly longer, so why would manufacturers focus their IT strategies to solve issues in the short-term? Faced with significant migration costs, it's a natural thought-process for many senior executives. However, with the RMaaS delivery model, such implementation efforts and change disruptions rest primarily on the expertise and time of Model N. Described by Gartner as simply an "as a service upgrade," RMaaS is so much more—more years of revenue management experience, more adaptability to meet market changes head-on, and more support to eliminate revenue leakage possibilities.

Gartner also describes revenue management as associated analytics management software that includes contract, chargeback and rebate processing, and is utilized to ensure accurate pricing practices. That said, revenue management systems cannot be fully actualized without an end-to-end process—at every step of the commercialization chain, including backend processing, and government reporting and compliance. On average, manufacturers have paid $7.35 million for a single overcharge penalty and the amount of overcharge cases have nearly doubled from 11.8 between 1991 and 2012, to 23.6 from 2012 and 2016.[5]

It's clear that data is continuing to be more complex and manufacturers increasingly find it difficult to process that data without experiencing costly errors. Simply implementing non-Model N "revenue management software" to maximize a specific revenue source will yield incomplete results. Model N is perfectly positioned to maximize revenue efficiently across all revenue sources, at a fraction of the speed, while significantly reducing the risk of government penalties.

The market analysis continues to focus on the costs associated with upgrading legacy software into the cloud, as "several Gartner clients have shared that the upgrade costs were significant and a deterrent to moving forward with a project. Movement to a cloud-based solution is becoming possible, but end-user organizations face high switching costs." While focusing on short term cost, Gartner fails to recognize the full value a manufacturer can derive from a vendor which combines years of industry expertise, market proven technology, and the ability to deliver all in the cloud. Additionally, it's important to consider the costs of not migrating to the cloud. Companies will be continuously affected by government pricing regulatory changes and in turn, run the risk of encountering immense penalties. In the ever-changing regulatory realm, is that a risk any manufacturers afford to take?

Value over Price

The necessity to consider long-term benefits when designing a comprehensive digital strategy is supported by other leading industry analysts. While the upgrade costs can be substantial when moving to the cloud, those costs are quickly offset by the value it delivers. For example, the cloud's infinite storage space allows companies to obtain vast amounts of data without dealing with a large infrastructure build. As a result of fully utilizing the cloud, innovative R&D practices are accelerated and companies experience reduced industry complexities through life science-specific applications. Companies can best achieve this by partnering with an expert revenue management vendor and in a recent survey, those using cloud-based technology for more than 25% of their software needs outperformed against the competition.[2]

For life sciences companies intent on meeting these growing business challenges head-on with a comprehensive digital strategy, outsourcing to an expert vendor may not be the least costly option upfront. Instead, the value of revenue management digital strategies stands out by maximizing revenue and significantly reducing vulnerability to massive fines and a negative brand reputation—making RMaaS a valuable option.

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