

WHITEPAPER

Take Rebates and Accruals from Administrative Burden to Competitive Advantage

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Model N

PUBLISHED BY:



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For many medtech manufacturers, bringing automation to rebate management is viewed as an operational efficiency gain. While there are certainly operational benefits to moving away from manual calculations, one-off customer communications, and cumbersome workflows, it's also important for manufacturers to recognize the financial benefits of business process automation. Streamlining rebate management – coupled with the extra step of monitoring and managing accruals in real-time – leads to top-line revenue gains, higher margins, and reductions in overpayments. With the right tools in place, manufacturers can reap these gains with little impact on the day-to-day work or annual compensation of sales teams.

This white paper will help you understand how you can streamline your rebate and accrual management processes to improve visibility, eliminate inefficiencies, align rebate programs, and optimize revenue.

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MANUAL PROCESSES LEAD TO INEFFICIENCY AND INACCURACY

When it comes to rebate and accrual management, manual processes are the status quo for most medtech manufacturers. These processes have gotten the job done for decades – but processing them manually presents multiple opportunities for inaccuracies in reports, calculations, and data management. This leads to inefficiencies and delays, as tasks must be repeated and payments may need to be adjusted.

Let's look at the life cycle for rebate and accrual management and see where these inefficiencies and inaccuracies come into play.

Processing the rebate. Medtech manufacturers need to determine which providers or facilities within a health system are eligible for rebates on particular products that were sold in a given time period. In the typical setup, each of these pieces of information comes from a standalone enterprise system. This ultimately leads to operations teams taking the time to pull reports and information across multiple systems and data sources and cross-reference them to verify who's eligible for a rebate.

Performing the calculation. It's no secret that nearly every medtech rebate is defined and calculated differently. Most manufacturers create and maintain spreadsheets to track this information. This typically requires writing formulas manually and performing calculations within spreadsheet software. This is a common source of errors in the rebate management process. It also makes it difficult for manufacturers to put in place more systematic methods of writing rebates, as there's no centralized repository for rebate information including data sources and calculation results.

Processing the payment. Once a payment has been calculated, operations teams must request that a payment be issued. That request usually flows from operations to enterprise resource planning (ERP) to accounts payable (AP) software. Enabling these requests often requires custom-coded software integrations – or a series of email threads with document attachments. Both processes mean that employees must spend time completing low-level tasks.

Calculating accruals. When rebates are processed as individual transactions, and when the exact total of a rebate isn't known until a check is cut, it's impossible for accounting teams to know how much money to reserve. Accountants must instead base their calculations on historical data and make adjustments once payments have been issued. For large medtech manufacturers, this could cause a reserve deficit of millions of dollars.



Compensating sales reps. The inability to calculate accruals on the fly makes it difficult to determine the difference between a gross price (before a rebate has been applied) and a net price (after the rebate has been applied). Consider two reps selling the same device. The rep who offers a gross price with a rebate will earn more than the rep who has to offer the lower up-front price without a rebate – even though the net price for both sales is the same.

Communicating with customers. When a customer's rebates are processed one at a time, overall rebate numbers are difficult to determine at a quick glance, and sales reps are unable to communicate a total rebate amount. As a result, customers often don't know the amount of their rebate check until it arrives in the mail. If it's not what they were promised, that can lead to a complicated conversation with the sales team.

Preparing for audits. Rebate programs are subject to regulatory scrutiny. It's also not uncommon for customers to request audits of their own rebates – especially if the amount of the rebate is significantly less than expected. When rebates are managed manually, rebate analysts must pore over spreadsheets and reports to track transactions and ensure that payments match the appropriate rebate definitions. This is a time-consuming and resource-intensive process.

Manual processes can work, but leaders in the industry realize they could work *better*. Nearly 40% of medtech executives say that [managing rebates and incentives presents a challenge to their organizations](#). That's where automation of revenue and accrual management enters the picture, bringing along operational as well as financial improvements.



7 BENEFITS OF AUTOMATED REVENUE AND ACCRUAL MANAGEMENT

Now let's look at the life cycle for rebate and accrual management from the perspective of process automation. Every step of the way, the process becomes faster, more efficient, and more accurate.

Processing the rebate. Automation can enable medtech manufacturers to define which providers and products are eligible for a rebate, apply that definition to multiple sales for the eligible providers, and track rebate eligibility against all sales. This cuts down on the time and effort needed to pull multiple reports and review and maintain lists of eligible providers and products.

Performing the calculation. Along the same lines, rebate calculations can be written and verified once and then applied to all sales. This reduces the likelihood of inaccurate calculations and limits the number of re-calculations needed to get the correct figure, reducing wasted time and making life easier for sales and finance teams.

Processing the payment. Automation allows payments to flow from sales to ERP to AP through a single system, without any manual steps required. In addition, workflows can be written to flag calculation results that require additional review such as the tier calculation, growth amount, or sales transactions included in the calculation.

Calculating accruals. Automated calculation of accruals gives accounting teams instant visibility

into their financial liability, allowing them to provide financial leadership with much more accurate calculations of the amount needed for reserve accounts. This reduces the risk of large, end-of-month adjustments to reserve accounts.

Compensating sales reps. Another benefit of real-time, centralized accrual calculations is instant visibility into net prices. This makes it possible for medtech organizations to calculate sales compensation based on net sales vs gross sales, ensuring that reps selling the same device receive the same compensation whether a customer gets a rebate or not.

Communicating with customers. With rebates being calculated on a daily basis, sales teams can provide customers with projected rebate amounts proactively, instead of reactively or not at all. Typically, sales doesn't have access to this information until reports are pulled at the end of the month, or even the end of the quarter. In addition, manufacturers can let customers know if they are falling short of a target rebate amount and offer suggestions for additional sales to close the gap. Together this improves customer satisfaction and ease of sale.

Preparing for audits. Automating the calculations of rebates and processing of transactions provides a detailed audit trail of when payments were made, to whom, and for how much. This audit trail assists with the ability to comply with Sarbanes Oxley compliance rules as well as individual customer requests.

HOW MODEL N ENABLES END-TO-END REBATE AND ACCRUAL MANAGEMENT

Model N Rebate Management is an all-in-one software platform that provides end-to-end management of the rebate and accrual life cycle for medtech manufacturers. Automating key business processes throughout this life cycle improves efficiency, accuracy, and compliance with contractual obligations. But there are a number of additional benefits to the business.

Visibility into financial liability. Rebate programs bring a degree of financial uncertainty to medtech manufacturers. Money must be kept in reserves to cover the cost of rebate checks. Real-time visibility into rebate accruals gives accountants a more accurate and up-to-date picture of a manufacturer's financial liability. They can make evidence-based decisions about what amount needs to go into reserves, instead of making educated guesses based on historical trends that may not account for current programs. This is only possible when rebates are managed, processed, calculated, and updated automatically using a centralized platform – not saved to a shared drive, processed ad hoc, and left until the end of the quarter.

Rebate program alignment. Decentralized management of rebate programs often leads to a high degree of customization, as sales representatives have little visibility into what other contracts or programs look like. Rebate analysts may receive a rebate that includes 20 or more calculations – but since it's already signed, it's too late to push back about the

added complexity. Bringing programs onto a single platform allows for the creation and utilization of readily available standard agreements. The single platform brings visibility across the sales and operations teams, as both teams have access to the same information. This streamlines the overall contracting process, reduces errors, and makes it possible for the two teams to work together efficiently.

Standardized compensation. With real-time insight into accruals, manufacturers can quickly determine what must be accrued to in advance of a future rebate payment. As a result, sales organizations are better equipped to compensate their reps based on net sales vs gross sales. Under these compensation models, reps don't have to be "penalized" with lower pay because a sale doesn't include a rebate, while manufacturers can take steps to implement a more balanced compensation model.

Revenue optimization. Automated calculations reduce the possibility of errors that result in inaccurate payments. The improved efficiency afforded by automation also increases the volume of sales that a medtech manufacturer can process. Users of Model N Rebate Management have demonstrated revenue optimization in three key ways:

- 3% increase in topline revenue
- 3% increase in margins
- 5% reduction in rebate or incentive overpayments

CONCLUSION

Today's medtech manufacturers may see little need to modernize rebate and accrual management processes as long as customers receive their rebates, sales reps get their paychecks, and reserves aren't depleted. However, there are numerous operational and financial benefits to automating rebate and accrual workflows: More accurate calculations, fewer customizations with rebate programs, better projection of customer rebates, and improved topline revenue due to more accurate payments and increased sales volume. Getting more out of rebate and accrual business processes through automation, and consolidating the processes onto a single platform like Model N Rebate Management, will provide an immediate and measurable ROI. [Contact us](#) to learn more.

SCHEDULE A CALL

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About Model N

Model N enables life sciences and high tech companies to drive growth and market share, minimizing revenue leakage throughout the revenue lifecycle. With deep industry expertise, solutions and business services purpose-built for these industries, Model N delivers comprehensive visibility, insight and control over the complexities of commercial operations and compliance. Our integrated cloud solution is proven to automate pricing, incentive and contract decisions to scale business profitably and grow revenue. Model N is trusted across more than 120 countries by the world's leading medical technology, pharmaceutical, semiconductor, and high tech companies. For more information, visit www.modeln.com.