



Growing Importance of Outsourcing in Life Sciences Revenue Management

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Introduction

In today's business environment, life sciences enterprises face a critical challenge: negotiating and securing favorable contracts globally to meet their revenue and profit targets. This marks the beginning of a highly complex revenue transaction process involving multiple entities in the heavily regulated industry. To achieve commercial success, life sciences enterprises must ensure streamlined revenue management throughout the system. This requires effective collaboration and visibility across multiple intermediary channels, such as payers, providers, distributors, hospitals, pharmacies, and government entities.

As enterprises strive to manage complex revenue management processes, they encounter a multitude of challenges such as a lack of understanding of the complex landscape, managing multiple stakeholders, navigating complex regulatory frameworks, the absence of domain experts, and limited budgets. Overcoming these challenges necessitates investments in people who understand both the revenue management domain and technology. However, this can be quite challenging and cost intensive. Consequently, depending on their size and business model, enterprises may choose to outsource certain revenue management functions, if not all, to avoid penalties, achieve better process efficiency, gain revenue visibility on transaction data, and explore new commercial deals.

In this report, we:

- Examine the current state of revenue management outsourcing in the life sciences industry
- Evaluate the benefits of outsourcing revenue management processes
- Provide an overview of different outsourcing models and establish a business case for the Business Process Outsourcing (BPO) and Software-as-a-Service (SaaS) model
- Examine enterprise sourcing criteria for BPO
- Provide a roadmap for successful revenue management outsourcing

The report will assist life sciences enterprises in understanding the benefits of outsourcing revenue management and developing a deeper understanding of the various outsourcing models that can be deployed based on their needs.

The current state of revenue management outsourcing

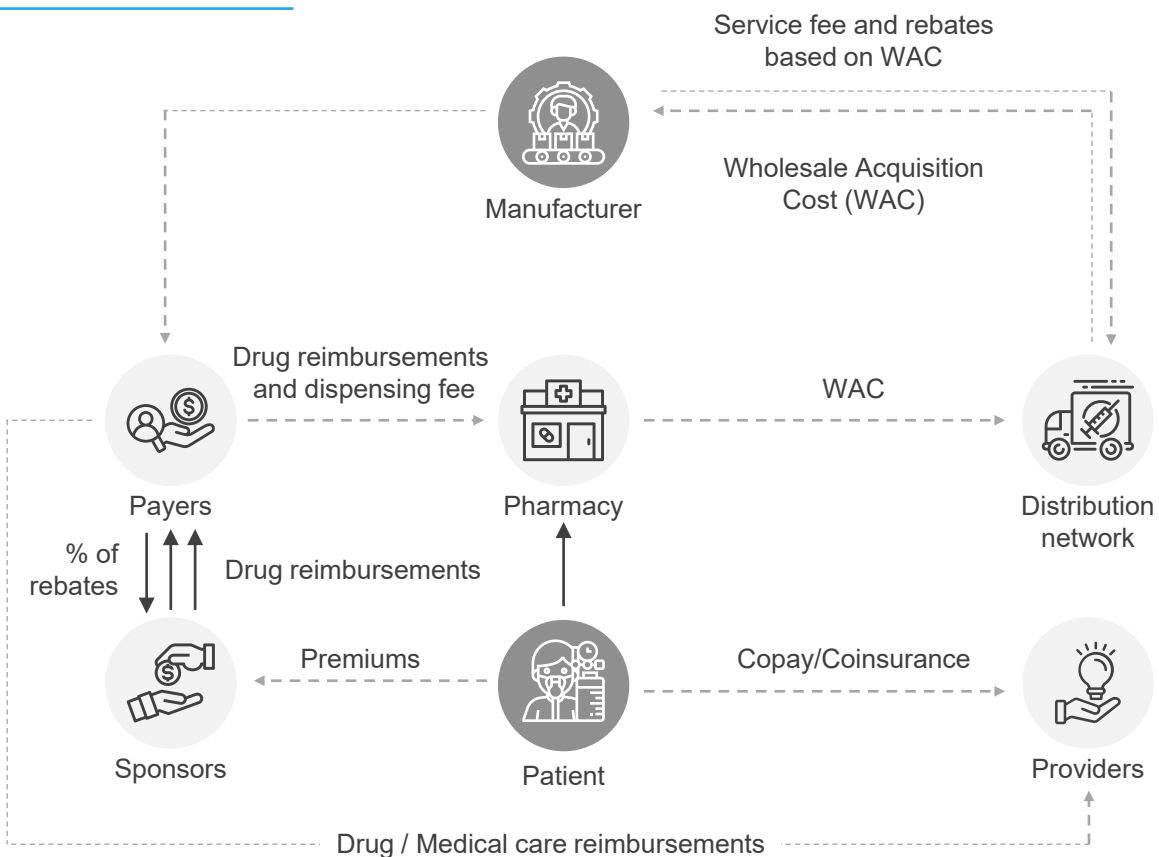
Understanding the revenue management life cycle and the need for outsourcing

The life sciences industry relies heavily on effective revenue management, which encompasses vital processes such as government pricing, Medicaid, deal management, and payer management. These processes involve interacting with multiple stakeholders, each with their unique interests and priorities. Therefore, it is essential for enterprises to dynamically manage these stakeholder priorities and associated processes to attain commercial success. Exhibit 1 illustrates the revenue management life cycle in the life sciences industry.

EXHIBIT 1

Revenue management life cycle

Source: Everest Group (2023)



To effectively handle the intermediaries mentioned above in a cost-effective and compliant manner, life sciences enterprises must invest in the following levers:

- Onboarding domain-specific experts:** As enterprises navigate the complex revenue management system, it is imperative to onboard experts who possess a deep understanding of the landscape and are updated on evolving regulatory and pricing requirements to stay compliant.

- **Intelligent insights layer:** The increasing volume of transaction data prompts enterprises to modernize their data infrastructure layer through the incorporation of cloud, big data analytics, and Artificial Intelligence (AI) / Machine Learning (ML) technologies. This initiative aims to establish a unified revenue data management layer capable of unlocking actionable business insights for the revenue management function.
- **Learning and development for reskilling/upskilling:** Given the highly regulated nature of the market, life sciences enterprises should prioritize investments in domain-specific upskilling and reskilling initiatives for their internal employees. This is particularly important for roles that are instrumental in managing intermediaries and exploring untapped markets. Empowering employees with personalized learning frameworks and equipping them with the necessary tools to effectively handle intermediaries and customers, while expanding their market knowledge, is essential for achieving market success.
- **Process optimization:** Currently, enterprises rely on error-prone and inefficient methods of managing revenue. However, with the increasing number of stakeholders and growing volume of transaction data, it is vital for enterprises to invest not only in people who understand the complex revenue management landscape but also in technology to streamline their operations. Outdated infrastructure, inadequate data management, and siloed data hinder enterprises' ability to effectively track revenue transaction data, resulting in inefficient management of rebates, chargebacks, and other processes. As per our 2022 CXO survey,¹ life sciences enterprises ranked process improvement and standardization as the primary drivers for BPO.

Every year, pharma organizations collectively incur a loss of over US\$15 billion in bottom-line revenue due to duplicate rebates, misuse of copay benefits, chargebacks abuse, and many other shortcomings.²

Handling the entire revenue management process in-house requires significant investment in people who possess expertise in both revenue management and technology. This can be quite challenging and cost intensive for life sciences enterprises. Therefore, outsourcing some or all of the revenue management processes (based on the enterprise's size and business complexity), both from BPO (to navigate evolving regulatory guidelines and the complex revenue management landscape) and technology standpoint (to streamline revenue management processes), can have a positive impact on enterprises' bottom line.

Revenue management outsourcing models

Revenue management outsourcing practices can vary significantly across enterprises, as some may choose to retain critical functions in-house, while others may outsource certain complex and labor-intensive tasks to third-party providers. This decision is primarily influenced by factors such as enterprise size, talent availability, product portfolio, and investment appetite, which are elaborated on the next page.

¹ Everest Group survey responses of 37 CXO executives from life sciences enterprises, 2022

² ZS – Optimizing revenue leakage with AI: Pharma's multibillion-dollar opportunity

- **Small enterprises:** These enterprises are in the early stages of commercialization, operating with a simple business model and a relatively small customer base, resulting in overall revenues below US\$1 billion. Due to limited spending capacity, they often rely on in-house solutions, typically spreadsheets, to maintain contracts, rebates, chargebacks, etc. For expert support, they opt for a BPO model, which provides access to on-demand regulatory expertise. This assistance helps with product launches, ever-evolving regulatory compliance, pricing strategies, and government reporting to avoid penalties, as and when required.
- **Mid-sized enterprises:** These enterprises have a significant number of drugs/medical devices in their portfolio, a substantial customer base, global reach, and overall revenues ranging from US\$1-5 billion. They aim to establish a forward-thinking business model to expand their market share and revenue. Based on their needs, these enterprises engage in either 100% BPO or a combination of BPO and SaaS models. The BPO model provides access to regulatory experts and handles manual workloads, while SaaS helps maintain a centralized solution for all transaction data. However, as these enterprises grow and achieve maturity, they may choose to retain certain vital revenue management functions in-house.
- **Large enterprises:** These enterprises have an extensive product portfolio, serve multiple therapy areas, have a diverse global customer base, and generate revenue often exceeding US\$5 billion, operating with a complex business model. Equipped with significant resources and technical investments, they possess the capabilities for effective revenue management. Consequently, large-sized enterprises prefer to handle revenue management processes internally and are less inclined toward full outsourcing models, which can compromise pricing confidentiality. However, they do leverage outsourcing to a certain extent to enhance their existing technology landscape with next-generation technology accelerators, including data analytics and AI/ML, enabling them to derive actionable business insights.

“ Enterprises’ choice of outsourcing model depends on various factors such as companies’ size and the availability of internal resources.³

– CFO, Head of Finance, Novartis

Benefits of outsourcing revenue management processes

Outsourcing revenue management processes enables life sciences enterprises to acquire the necessary tools and expertise to navigate the complex landscape. It empowers enterprises to achieve improved financial stability and cultivate profitable commercial relationships with all intermediaries involved in the revenue management life cycle. Outsourcing revenue management processes yield various benefits such as reduced compliance risk, enhanced process efficiency, access to industry experts, and increased visibility on contracts and pricing. Exhibit 2 outlines the outsourcing benefits that enterprises of different sizes realize.

3 Everest Group industry expert interactions

EXHIBIT 2

Benefits of outsourcing revenue management processes

Source: Everest Group (2023)

Benefits realized: Low Medium High

Top benefits realized	Small enterprises	Mid-sized enterprises	Large enterprises
Process efficiency			
Compliance risk and penalties			
Revenue visibility			
Innovative pricing constructs			

- **Better process efficiency:** By deploying technology and regulatory experts, enterprises can improve process efficiencies. This involves reducing manual workloads and establishing a single source of truth for transaction data in the product supply chain, which, in turn, frees up internal resources to concentrate on core business activities, minimizes overhead expenses, and enables scalable operations as needed, ultimately leading to increased efficiency.
- **Reduced compliance risk and penalties:** Engaging industry-specific regulatory experts and staying updated with evolving regulatory and pricing guidelines reduces the risk of compliance violations and penalties. This approach allows enterprises to maintain compliance with global and regional regulatory requirements, benefiting from knowledge sharing and experience without the need for a full-time team, resulting in cost efficiencies.
- **Increased revenue visibility:** Streamlining the internal revenue management process through technical and operational investments provides increased visibility into revenue transactions, including contracts, rebates, and timely reimbursements. This visibility helps enterprises identify and track revenue leakages, improve data exchange across the revenue life cycle, establish key business KPIs, ensure accurate pricing and quoting, and mitigate data security risks associated with maintaining large revenue details on spreadsheets.
- **Innovative pricing constructs:** Enterprises are exploring innovative pricing constructs, such as outcome-based and risk-based models, to differentiate themselves in the market. However, these new models present challenges in revenue reporting. Access to technology and process expertise can facilitate a smooth transition to these innovative commercial models, allowing enterprises to differentiate themselves in the market while effectively managing revenue.

Regardless of size and product portfolio, most enterprises can realize the benefits mentioned above. However, the primary objectives may differ based on the size and priorities of the organization. For small enterprises, compliance reporting is the primary benefit they can gain. Mid-sized enterprises, on the other hand, have the potential to derive maximum benefits from product, people, and process improvements. Large enterprises focus on enhancing their revenue management practices and leveraging advanced next-generation technologies to unlock new insights.

Driving profitable revenue management outsourcing practices

Revenue management outsourcing models




Enterprises adopt various outsourcing models for revenue management based on parameters such as enterprise size, business model complexity, desire to retain control over revenue management functions, and investment preferences. Among the most prominent outsourcing models utilized by life sciences enterprises for end-to-end revenue life cycle management are BPO, BPO and SaaS model, and shared services model. Below is an overview of each outsourcing model.

- **BPO:** This model for revenue management encompasses the expertise of individuals who possess a comprehensive understanding of revenue management practices within both the enterprise landscape (managing end-to-end revenue management business operations) and the broader industry (navigating evolving regulatory requirements, pricing guidance, market trends, etc.). The life sciences BPO market is expected to grow at a Compound Annual Growth Rate (CAGR) of 9% from 2022 to 2027, reaching an estimated value of US\$49 billion by 2027.⁴ BPO acts as an extension of the enterprise, providing deep industry expertise to effectively manage back-office tasks and manual workloads related to pricing and contracting, rebates, and chargebacks. This allows life sciences enterprises to create new revenue opportunities rather than solely managing existing ones. According to a recent CXO survey, 77% of respondents highlight the significance of process and industry-oriented domain knowledge and expertise as a key enabling factor for BPO.⁵
- **BPO and SaaS:** This outsourcing model combines industry expertise with technology to effectively manage the end-to-end revenue management life cycle. It enables life sciences enterprises to engage industry experts who bring the latest regulatory and market intelligence, while also outsourcing technology to obtain a comprehensive and accurate view of revenue transactions data, unlocking critical business insights. Based on enterprises' requirements, some may choose a single platform with a BPO provider to handle the entire revenue management life cycle, while others may adopt a multi-platform and multi-provider approach to manage distinct sets of processes.
- **Shared services:** This outsourcing model entails establishing a centralized, self-operating entity in cost-effective locations to effectively manage the end-to-end revenue management life cycle, while considering people, processes, and technology. The revenue management shared services model adopts a centralized approach within enterprises, offering a wide range of services. This includes cultivating in-house domain experts, developing an internal revenue management platform, and optimizing revenue data capture processes to streamline operations.

Each of these revenue management outsourcing models hold varying potential for life sciences enterprises. The table on the next slide highlights the value drivers and limitations of each outsourcing model.

4 Everest Group estimates

5 Everest Group survey of 550+ C-level executives and senior executives from different enterprises and geography, 2021

Outsourcing models	Value drivers	Limitations
<p>BPO</p> 	<ul style="list-style-type: none"> • Access to industry experts with on-demand scalability worldwide • Ensure better regulatory compliance with experts who understand both global and regional requirements • Reduce administrative workload around handling revenue management operations and acquiring/retaining relevant talent pool in-house 	<ul style="list-style-type: none"> • Confidentiality concerns around revenue data, pricing structures, and business models • Limited control over the revenue management function • Overreliance on industry experts for knowledge sharing, legal training, and market research
<p>BPO and SaaS</p> 	<ul style="list-style-type: none"> • Scale industry on-demand experts who understand both global and regional regulatory requirements • Gain visibility into market trends and continuously adjust financial models (government pricing, rebate, contract structure, etc.) throughout the product life cycle • Improve process efficiency with accelerated transaction validation, enabling high volume contracts and explore new commercial constructs • Easily access revenue data to generate on-demand reports for internal stakeholders and enable data-driven decision-making • Reduce capital expenditure on technology infrastructure 	<ul style="list-style-type: none"> • Limited control over the process and confidentiality concerns around revenue data, pricing structures, and business models • Need for change management strategy to transition from traditional practices and scale the adoption of revenue management tools • Manage costs associated with modernizing legacy systems, data migration, and system integration
<p>Shared services</p> 	<ul style="list-style-type: none"> • Maintain greater control and flexibility with a centralized function managing the revenue management process • Receive customized services aligned with enterprise requirements, as this is an internal team • Foster innovation through cross-functional collaboration and breaking down silos across different teams and business units 	<ul style="list-style-type: none"> • Lack of industry expertise, revenue management best practices, and knowledge of both global and regional regulatory and pricing requirements • High capital expenditure pressure from technology setup, recurring licenses, and data infrastructure costs • Limited flexibility to scale up/down talent on demand without heavy resource investments • Greater time-to-value for enterprises as they need to invest heavily to onboard and retain experienced industry talent pool

Establishing the business case for BPO and SaaS outsourcing models

The BPO and SaaS outsourcing model provides life sciences enterprises with a comprehensive revenue management services portfolio that encompasses both talent and technology. This alleviates significant burdens for enterprises, particularly in terms of upfront capital investment. Exhibit 3 highlights the various benefits associated with the BPO and SaaS model, such as potential business outcomes, operational efficiency, and cost optimization, when compared to other revenue management outsourcing models.

EXHIBIT 3

Revenue management outsourcing models' benefits

Source: Everest Group (2023)



Benefits		BPO	BPO and SaaS	Shared services
Business outcomes	Reduced revenue leakage			
	New revenue streams and growth opportunities			
	Reduced compliance risk and penalties			
Operational efficiency	Resource optimization (automating manual workloads and reallocating core businesses)			
	Better process accuracy (claims verification, rebates calculation, etc.)			
	Process and revenue transaction data visibility and unlocking insights			
Cost optimization	Process: limited overhead (admin fee, infrastructure installation, etc.)			
	People: reduced onboarding and training, reskilling, and upskilling costs			

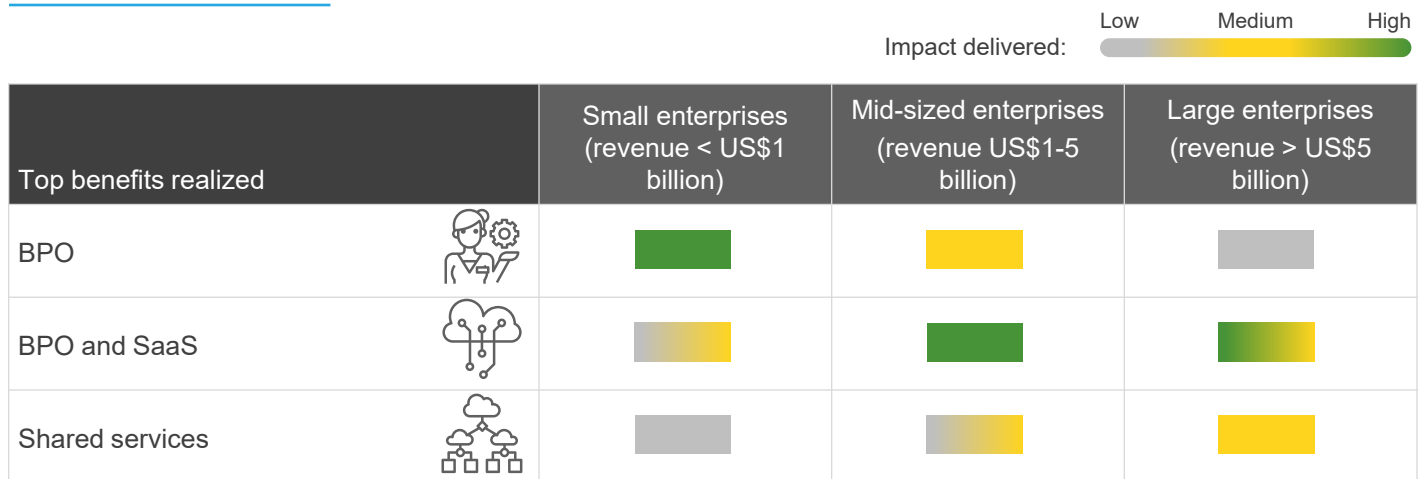
Business outcomes include achieving targeted revenue through effective pricing strategies, increasing market share through innovative commercial models or launching new products/services, and avoiding penalties resulting from regulatory non-compliance. A recent survey⁶ revealed that 54% of enterprise senior executives recognize that leveraging BPO actively contributes to unlocking business outcomes. Operational efficiency involves consolidating available revenue data and making it accessible to all internal stakeholders for data-driven decision-making. Additionally, optimizing/replacing mundane tasks improves process efficiency. Cost outcomes are defined as minimizing costs associated with people (hiring, upskilling, and training), process (administrative fees and transaction fees), and technology (infrastructure costs and license costs), resulting in optimal cash flow for the enterprise.

Based on the impact analysis from Exhibit 3, it is evident that deploying a BPO and SaaS revenue management outsourcing model offers life sciences enterprises the potential for maximum benefits. However, it is important to note that it is not a one-model-fits-all solution. The extent of impact each revenue management outsourcing model can create may vary for different enterprises, especially based on factors such as size, complexity, and organizational priorities. Exhibit 4 illustrates how the impact of each revenue management outsourcing model may vary depending on the unique characteristics of the enterprise.

EXHIBIT 4

Impact of revenue management outsourcing models on different enterprises

Source: Everest Group (2023)



The BPO model is well-suited to meet the needs of small enterprises given their limited inclination to invest in outsourcing technology. For mid-sized and large enterprises that aim to expand and increase their market share, the BPO and SaaS model is the most favorable outsourcing approach. This model allows them to unlock both technology and operations benefits across the complex revenue management life cycle. However, it is important to note that large enterprises may have reservations about deploying a BPO model, given the concerns around potential loss of control over the revenue management function and price sensitivity, which could impact their competitive differentiation in the market. On the contrary, small and mid-sized enterprises primarily prefer the BPO model as their fundamental objective is to ensure compliance with regulations.

6 Everest Group's webinar poll on BPO, 2022

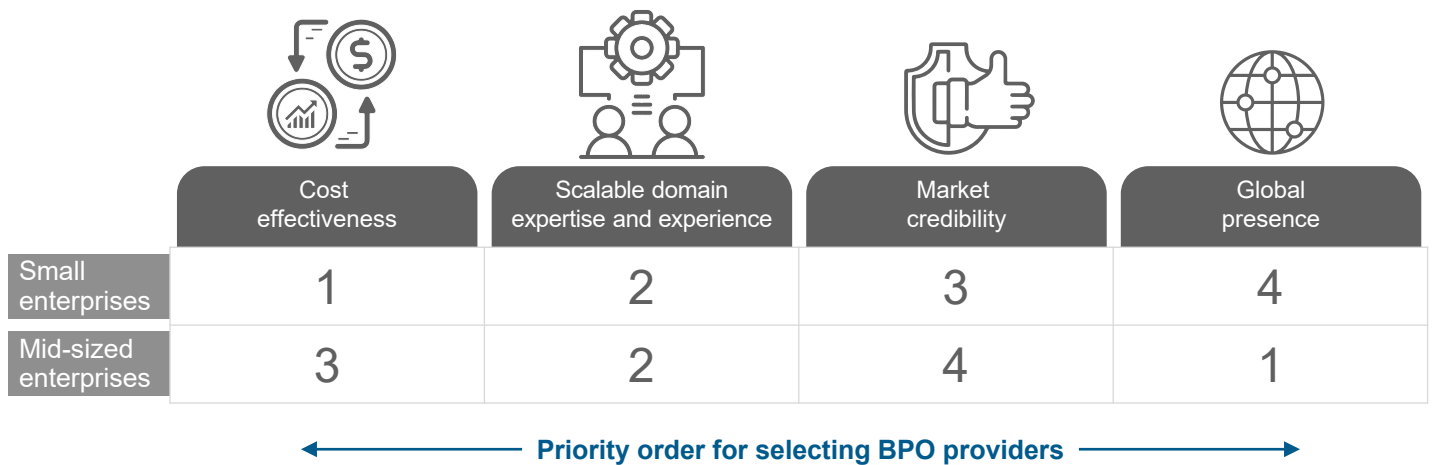
Enterprise sourcing criteria for BPO providers

Life sciences enterprises, in their pursuit of a BPO partner to navigate the intricate terrain of revenue management, prioritize several parameters. Exhibit 5 highlights the most crucial sourcing criteria for small- and mid-sized enterprises when selecting a third-party BPO provider for revenue management, listed in order of priority. This selection process aims to achieve diverse business, operational, and cost benefits.

EXHIBIT 5

Enterprises' sourcing criteria for selecting BPO providers

Source: Everest Group (2023)



- Cost effectiveness:** Price competitiveness is a key criterion for sourcing partners, especially for small and mid-sized enterprises that have limited resources. However, it is important to note that cost effectiveness does not always guarantee favorable outcomes and can potentially lead to substantial penalties and compliance expenses. Consequently, life sciences enterprises seek outsourcing partners capable of delivering high-quality services in a cost-effective manner, ensuring optimal results and avoiding adverse consequences.
- Scalable domain expertise and experience:** As enterprises strive to expand their market share, they prioritize collaborating with industry experts to facilitate growth. This is particularly true for small and mid-sized enterprises. Due to their limited resources, they typically choose to outsource their revenue management function to mitigate risks rather than handling them internally. Consequently, they seek partners who can provide an on-demand, scalable team of experienced professionals with industry-specific knowledge, expertise in revenue management processes, and a strong background in revenue cycle management. This includes proficiency in areas such as reimbursement support, claims processing, and product pricing challenges. In our 2022 survey⁷, 40% of life sciences enterprises' C-suite executives identified talent as the primary criterion for sourcing partnerships.

⁷ Everest Group survey responses of 53 CXO executives from life sciences enterprises, 2022

- **Market credibility:** Typically, life sciences enterprises prioritize outsourcing partners with a strong market reputation, industry recognition, and a proven track record in managing revenue management processes worldwide. This preference grants enterprises access to the latest industry-specific information and best practices in revenue management, provided by peers. Such access not only enables enterprises to efficiently handle revenue but also facilitates the exploration of innovative commercial constructs and product pricing strategies, fostering business innovation and growth.
- **Global presence:** With expanding global landscape and varying regional regulatory and pricing requirements, enterprises seek outsourcing partners that can offer a diverse talent pool with both global and regional market knowledge, worldwide presence, on-demand scalability, and shared resources.

Future outlook

Enterprises' blueprint for successful revenue management outsourcing

As enterprises seek to outsource their revenue management practices, it is imperative to outline a roadmap for the journey ahead and prepare for a seamless transition toward adopting an outsourcing model that meets their requirements. Below are five essential steps that will assist life sciences enterprises in navigating the revenue management outsourcing process smoothly.

Establish an enterprise-wide vision

Depending on the objectives they want to achieve, different enterprises have unique journeys to follow when outsourcing their revenue management processes. While the broader objective of improving business outcomes, cost optimization, and enhanced efficiency remains common, the core objectives vary based on factors such as complexity, resources availability, and investment appetite. As enterprises define their core objectives, it is essential to secure management buy-in from relevant stakeholders from the outset to identify and prepare for organization-wide challenges. Furthermore, to develop a transparent strategy, enterprises must involve specific C-level executives, business leaders, and technology experts who can obtain the necessary funding and facilitate effective change management in the future. The following table outlines the core objectives that small, mid-sized, and large enterprises strive to achieve through the outsourcing of revenue management processes.

Small enterprises	Mid-sized enterprises	Large enterprises
Real-time regulatory intelligence	Real-time regulatory intelligence	Data accessibility and actionable business insights
Internal resource optimization	Internal resource optimization	Improve stakeholder experience
Manage existing revenue streams	Streamline revenue management processes	Personalize internal staff's learning curve
	Faster market access through new revenue streams	
“Ensure compliance, avoid penalty, and secure market entry”	“Ensure compliance, streamline processes, and expand market share”	“Build a data-driven organization and capture the global market”

Self-assessment across talent, technology, and process to reveal existing gaps

Once life sciences enterprises articulate and disseminate their vision within the organization, the next step is to evaluate their internal revenue management capabilities and assess the level of maturity across talent, technology, and processes. This evaluation enables enterprises to determine whether their current setup adequately meets business requirements or if intervention is necessary. It also helps identify existing gaps from both technical and operational perspectives, which, in turn, shapes the sourcing criteria for selecting a third-party provider. Below we list some key questions for enterprises to run an internal diagnostic. (Please note: The questions are not exhaustive but are representative of some of the vital inquiries that must be addressed.)



Talent	Technology	Process
Key questions for enterprises		
Can you quickly onboard or reshuffle resources internally when the need arises?	Does your current technology stack aid the enterprise in achieving its established goals and targets?	Is your team mostly involved in managing day-to-day operations? Can they focus on outlining business expansion strategies?
Is the training and support provided to internal employees sufficient for keeping them up to date with the latest regulations?	Is the data management layer cohesive or fragmented (with siloed data, real-time visibility in revenues, and security concerns)? Can you unlock insights for business decision-making?	Does your internal team need to depend on enabling functions (such as IT, data-scientists, and analysts) to access reports on contracts, compliance reporting, etc.?
Do employees have the skills to effectively interpret, raise anomalies, and use the data for informed decision-making?	Are there tools to track business KPIs that measure the efficiency of the revenue management process?	Is there a data governance team (stewards/owners) to check the quality of the data?
		Do you see redundancy or errors in the current state of managing multiple stakeholders? What steps are taken to mitigate these errors?

Peer assessment to understand industry best practices

After conducting an internal assessment, it is important for enterprises to analyze the approaches adopted by their peers to understand industry best practices. By combining the findings of both internal and peer assessments, life sciences enterprises can develop a comprehensive understanding of the landscape. This analysis aids in prioritizing investments, determining the desired state of revenue management outsourcing, and establishing a clear trajectory toward achieving that desired state.

Onboard the right partner

The penultimate step in the revenue management outsourcing journey is selecting and onboarding the appropriate BPO and technology partner that can address the existing gaps. While the specific sourcing criteria may vary for each enterprise based on size (see Exhibit 4), there are essential parameters that must be considered when assessing potential outsourcing partners. To ensure a successful revenue management outsourcing journey, enterprises must assess partner capabilities across the following dimensions:

- **Type of provider:** Does the provider offer support across both BPO and SaaS in their services portfolio, based on the evolving needs of the enterprise?
- **Breadth of revenue management services portfolio:** Can the provider deliver end-to-end revenue management capabilities if required?
- **Infrastructure:** What are the considerations for maintenance after deployment, specifically in terms of SaaS-based consumption model?
- **Scalability and flexibility:** Can the partner provide skilled talent and scale it up/down as needed?
- **Delivery footprint:** Does the provider have global delivery locations and a presence, enabling them to offer both regional and global expertise?
- **Case studies:** Has the provider demonstrated a proven track record in addressing the needs of all types of enterprises, especially small and mid-sized enterprises?

Performance governance through KPIs

To effectively manage the overall efficacy of revenue management outsourcing and drive continuous improvement, life sciences enterprises must establish performance governance through Key Performance Indicators (KPIs). These indicators help measure both business and operational outcomes. Here are a few representative KPIs that are important for assessing the effectiveness of revenue management outsourcing:

- Reduction in revenue leakage (%)
- Rate of change in stakeholder base (%)
- Reduction in capital invested for training and upskilling (%)
- Change in compliance-related incidents year-on-year (%)

It is important to note that these metrics are illustrative in nature, and the primary KPIs may vary for enterprises based on their size and the extent of outsourcing.

Conclusion

Revenue management plays a vital role in the success of life sciences enterprises. To achieve market success, it is essential for these enterprises to derive maximum value from optimizing the complex regulatory and revenue management processes. However, the rapidly evolving regulatory landscape and the sheer volume of data involved can be expensive and overwhelming for many enterprises to handle internally. To address these challenges, it is advantageous for enterprises, based on their size and revenue management needs, to engage experts who possess a deep understanding of both the domain and the technology. This can be accomplished through a BPO and SaaS outsourcing model. By leveraging the expertise of external partners, enterprises can unlock benefits such as cost optimization and improved process efficiency and avoid compliance risk.

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