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The Six Step Operating Guide

TO REVENUE EXECUTION FOR MEDTECH MANUFACTURERS

The Six Step Operating Guide to Revenue Execution for Medtech Manufacturers

INTRODUCTION

For medical technology manufacturers today, negotiating and executing favorable contracts globally is a critical step in achieving revenue and profit targets. But that's just one stage in the incredibly complex revenue transaction process in the medtech industry. As revenue flows throughout the system, working effectively with, and achieving visibility throughout, intermediary channels, such as group purchasing organizations (GPOs), distributors, pharmacy benefits managers (PBMs), insurance companies, hospitals, clinics, and government is imperative for success.

With competition on the rise as medtech regulatory approvals accelerate, successful launches and price execution have never been more important for meeting aggressive revenue and profit targets.

This paper presents six essential steps that both established and emerging medtech manufacturers can take to build a revenue execution environment that pays off by reducing revenue leakage and driving profits and market share for products.

The Anatomy of the Revenue System in Medtech

Contributing to the growing gross-to-net bubble in the life sciences industry, the ever-growing chasm between list and net price, it's common for medtech companies to find revenue leakage in the millions, and in some cases that we've found, billions of dollars.

To discuss ways to improve revenue operations, we must first understand the anatomy of the revenue system in the field of medical technology manufacturing. As illustrated in figure 1, the revenue transaction process is a complicated system requiring all parties involved, or "organs" for the sake of our illustration, to work together in harmony. Each organ has its function. If you consider the flow of revenue to be the blood source of the system, a healthy system requires a healthy flow of revenue.

Often however, issues arise in the flow of revenue impeding the system from operating at its prime potential. Revenue leakage is a widespread problem that has many sources, including:

BLEEDERS

"Bleeders," or transaction points where revenue leakage occurs through overpayments in rebates, volume discounts, chargebacks, and other deductions. These bleeders result in the loss of revenue, impacting your top line, and higher operating costs, impacting your bottom line.
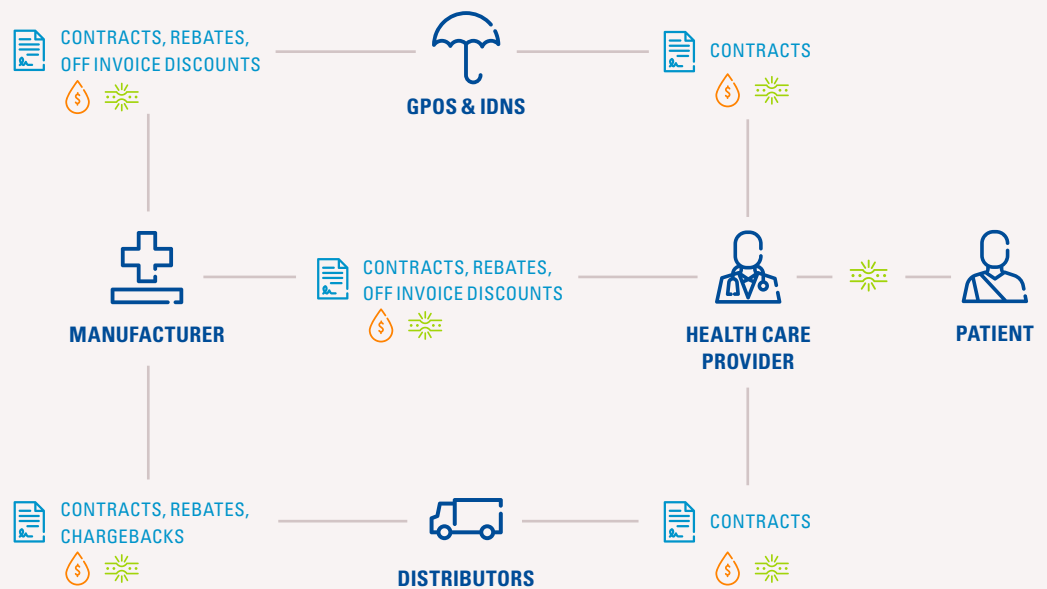
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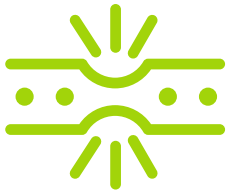
"Blockage," or points in the revenue process where loss of visibility occurs due to internal siloed operations, or reliance on partners and intermediaries to share data. The interchange of data is often a slow and manual process rife with inconsistencies and incorrect data. This lack of transparency and inaccuracy manifests into several symptoms for medtech companies, including unreliable reporting and analytics, poor forecasting capabilities making it difficult to make key business decisions and improve competitive posture, and lengthy sales cycles resulting in lost revenue.

Figure 1.

Simplified Representation of US Medtech Market Transaction Process

- revenue leakage
- loss of visibility

This illustration represents a simplistic view of the typical market transaction process in the US Medtech industry. Each organization follows its own unique process. Before you even begin the Six Steps, it's important that you map out the anatomy of the transaction process and players unique to your organization and business, including areas where you are potentially experiencing "bleeders," areas of revenue leakage, and "blockage," loss of data visibility.

CONTRACTS, REBATES, OFF INVOICE DISCOUNTS

CONTRACTS

GPOS & IDNS

CONTRACTS, REBATES, OFF INVOICE DISCOUNTS

MANUFACTURER

HEALTH CARE PROVIDER

PATIENT

CONTRACTS, REBATES, CHARGEBACKS

CONTRACTS

DISTRIBUTORS

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So now that we understand the revenue problems that we need to get under control, we can begin our approach to improve our revenue operations.

The Six Step Operating Guide to Revenue Execution

1. Diagnose

Get started with an environmental scan of the entire revenue process to identify areas of inefficiencies or inaccuracies. Flag points of blockage where siloed teams are not working from a single source of truth in data, manual processes with high potential for human error and time drainage, and revenue leakage points where overpayments or inaccurate payments may be occurring. Identify quick hits that can be done first to create transparency and stem the flow of revenue leakage, and strategies to remedy the hard-to-fix leaks and operational inefficiencies.

2. Prepare

Identify the resources and tools needed to address key issues and keep your team efficient. Invest in process automation capabilities that allow you to stretch resources further and improve results.

3. Get precise with your operating plan

Don't just wing this one or make the mistake of thinking a broad plan is good enough. Automated validation of contract compliance can add precision and improve results, while allowing your team to innovate when developing new contracts types and models. The more defined your processes and tools, the better your system will operate as a whole.

4. Stop the bleeders

Once the quick hits are identified, move quickly to put fixes in place. Administrative costs and penalties can further impact profitability so taking steps quickly to identify and remedy the largest issues can pay off big.

5. Manage your operating team

Leverage real time visibility and partners where needed to make sure you are addressing urgent issues as well as putting a workflow in place that allows for continuous process improvement. This is not a one-time project; the complexity of contracts will continue to grow and your team will require a revenue management platform that will grow and scale alongside your product portfolio.

6. Monitor

Establish the right metrics and monitor key performance indicators to make sure your results continue to operate at its highest potential over time.

1. DIAGNOSE

2. PREPARE

3. PRACTICE PRECISION

4. STOP THE BLEEDERS

5. MANAGE THE OPERATING TEAM

6. MONITOR

The Details Step by Step

STEP 1

Diagnose

Most medtech manufacturers are aware of some of the issues in their revenue execution processes, but few are aware of all of them. Some manufacturers may not have the visibility needed to see the end-to-end process at a high level from when a product leaves the manufacturing facility to when it ends up at its final use case; many will find multiple areas of revenue leakage hiding in plain sight.

Medtech manufacturers typically leverage contracts that offer discounts and incentives—increasingly tiered and volume or value-based—to gain market share. These contracts are complex and difficult to manage and enforce, while the consequences of failing to properly execute them include revenue leakage and poor data for the manufacturer. Revenue lost by way of improperly priced sales or inaccurate rebate payments take effort to recover, and when public payers are involved, these inaccuracies may result in penalties.

A full environmental scan is necessary when getting started, to identify and prioritize targets for improvement, and to create a plan to move forward. While some manufacturers may be able to diagnose problems using internal resources, many others find value from a third-party assessment that takes both the company's existing practices and emerging best practices in the industry into account when making recommendations. Pricing and contracting executives should consider outside strategic services when getting started to make sure targets are identified, current, and future needs are considered, and all are prioritized appropriately from the outset.

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Making sure that the initial assessment is comprehensive and accurate, however it is accomplished, provides the starting point most likely to lead to success. The environmental scan should flag leakage points and areas in the process where revenue leakage is most critical, ranking the deficiencies both by their monetary impact and the difficulty and complexity estimated to be necessary to correct them. Areas of operations to examine include:

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PRICING AND CONTRACTING.

Key objectives of pricing and contracting strategies include developing customer segmentation strategies and go-to-market plans, as well as creating pricing guidelines, templates, and profitability and margin requirements to be used by sales teams. These practices can be time consuming, particularly for new products, where contract management solutions can be leveraged to consolidate data, make information available for better decision making, and add agility to strategies.

OFFER AND CONTRACT DEVELOPMENT.

Sales and sales operations will work closely with their back-office counterparts in sales contract and pricing operations to develop request-for-proposal and tender responses, to negotiate contracts, and to ensure that necessary checks and validations, profitability analyses, and approvals of discounts and proffered customer incentives are in place. Technology is critical to reducing manual processes and paperwork in this step; and adding collaboration capabilities and measurement tools so better contracts can be brought to market more quickly is key.

COMPLIANCE AND ANALYSIS.

The purpose of medtech contracts is to ensure that preferred customers— those with access to large numbers of patients, and in the US, those with commercial insurance and higher reimbursement rates—have access to better pricing and discounts than would otherwise be available in order to generate market share. At the same time, contracts may require customers to meet volume or market share targets to receive the lowest prices. These tiered structures make monitoring compliance important to ensure the right pricing. Advanced analytics can be helpful to assemble and leverage compliance data.

VALIDATION AND MANAGING MEMBERSHIPS.

In exchange for guaranteed purchase commitments, medtech manufacturers offer a variety of incentives to their contract customers and other intermediaries, such as GPOs. Automating the tracking of memberships alongside contracts, and charging each customer the best price they are entitled to, is something well left to automation. Validating claim lines before payment is an important part of this process and a key automation consideration for manufacturers experiencing revenue leakage.

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An initial assessment and prioritization will allow teams making process improvements and adding tools to workflows to identify areas that most need improvement, get to the easiest-to-fix and most impactful problems first, assign resources accordingly, and yield results fast. The output from the diagnosis stage should be an ordered list of revenue management issues that need to be addressed, in descending order with the issues with the largest impact and lowest estimated effort on top.

STEP 2

Prepare

Once the environmental scan is complete, preparation for action can begin. Leveraging the prioritized list from the diagnosis stage, the resources and tools needed to address key issues can be identified. Some interventions may require technology. For others, people and process changes are more appropriate. Further work can be done on the list to group issues which may be part of the same overarching process or have a common solution or applicable tool. Once complete, reprioritization may be required. This is necessary to assign resources appropriately and keep your team efficient.

Leveraging the prioritized list from the diagnosis stage, the resources and tools needed to address key issues can be identified.

The list of revenue leakage points can now be expanded to attach budget to each desired activity and determine the tools and resources required to address them. This exercise can bring additional clarity to the process, and if revenue goals and expected investment do not align, reprioritization may once again be necessary. It's an iterative process of continuous improvement.

Firms should look at the big picture to identify the investments that make the most sense, and determine at this stage if they will be updating the platform for their revenue management environment entirely, or if they will be able to extend and apply existing platforms to the problem areas with the biggest business impact. Investing in process automation capabilities may also allow medtech manufacturers to stretch resources further and significantly improve results. Available resources may dictate how some issues are addressed. Transaction volume and contract complexity can be a deciding variable in this investment decision, but manufacturers should take into account both current volume and projections for three to five years out. Assume contracts will become more complex in the future, when making investment decisions.

STEP 3

Get Precise with Your Operating Plan

While medtech product approvals are increasing, so are the requirements payers are imposing on manufacturers to justify the value of their products. This is resulting in more complex medtech contracts; examples include value-based and tiered contracts that can be complicated to enforce. Revenue management efforts should be customized to the type of contract involved and its contents and constraints. In some cases, manufacturers may want to assign additional personnel to address issues, but automation investments can lessen the need for augmenting expensive, dedicated revenue management staff. Automation is usually necessary when high volume devices that may have hundreds of thousands of rebate claims per year are involved. However, while automated validation of contract compliance can add precision, stretch resources and improve results, it may not be possible for the most complex contracts or highest value devices.

Firms should also customize the approach in this stage not only for the complexity of the contracts involved, but also for the value and volume expected from the currently marketed products, as well as those expected to come to market in the near-term horizon— three to five years out. Having a flexible and agile process in place for managing and enforcing contracts and pricing can allow your team to innovate when designing contracts, by giving them more tools to implement innovative contract types, while being assured that contracts are enforceable. Agile, adaptable pricingand contracting infrastructure will also be invaluable when launching new devices in the future and establishing their contracting and pricing.

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Stop the Bleeders

Now is the time to move on the quick hits, the "bleeders" —the revenue leakage areas that are attached to the highest value or volume products, with relatively easy fixes to stop leakage, but the highest likely return on investment. Moving quickly to put fixes in place for these issues can yield immediate benefits and provide momentum for your project as you move forward toward addressing tougher issues. Administrative costs and penalties can further impact results so taking steps quickly to identify and remedy the largest issues will pay off big.

Ineffective price validation practices, and improper management of chargebacks and rebates will always translate to lost revenue opportunities and increased risk.

So, what are some of the common culprits causing the heaviest areas of revenue bleed? Ineffective price validation practices, and improper management of charge-backs and rebates will always translate to lost revenue opportunities and increased risk. To remedy these symptoms, a robust revenue management platform can enable you with the flexibility and control to define pricing rules and logic to ensure that your extended price is correct; thus, preventing credit and rebill transactions and ensuring proper payout of fees and rebates. An automated solution can also enable effective monitoring to ensure that your customers are in compliance with tiered purchasing commitments, alleviating you from giving away product at a lower price than what you are actually earning.

The payoff can be substantial. Model N customers have recovered millions in overpayments through automation and a reliable system of record, including an industry leading life sciences company that staunched $30m in annual revenue leakage. And the return can be quick, as evidenced by a Fortune 1000 medtech and pharma company that identified $400k in recoverable revenue leakage on day one of going live with Model N's revenue cloud platform. In addition to recovered revenue, an end-to-end revenue management platform provides the benefits of automated, real-time, traceable, and auditable information trails. Robust analytics elevate data to actionable insight, giving you the visibility to know that you charged the right price, paid the correct rebate, and included the correct transactions in rebate and fee calculations based on contract terms.

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Manage Your Operating Team

Cross functional visibility and the sharing of reliable and accurate information between Sales, Finance, and back office operations is critical to optimizing your revenue performance. For instance, Finance requires accurate and timely rebate calculations to appropriately book accrual liability to the GL, and to ensure proper revenue recognition in compliance with the new ASC 606 standard. Sales requires rebate trending insight to effectively manage their accounts and optimize customer success. Accurate data, and the insights that it provides, is the life force that keeps your teams working in harmony together. When departments aren't talking together and people are working in silos, the results are lost time, lost productivity, and ultimately, lost revenue.

Leverage real time visibility and internal partners where needed to make sure you are addressing urgent issues, as well as putting a workflow and infrastructure in place that allows for continuous process improvement. You, your team, and your management should recognize that this is not likely to be a one-time project, as the complexity of contracts will continue to grow.

It is important to recognize that your team needs a revenue management platform and best practices that will grow alongside your product portfolio and lead to success in all areas of the revenue management process.

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Monitor

Establish the right metrics and monitor key performance indicators to make sure your results continue over time. Without ready access to systems or data during the contracting, enforcement, validation, and payment processing stages, companies can find themselves at a disadvantage. Customers may end up getting terms they do not deserve or otherwise charged inappropriate prices as a result of your team not having access to appropriate pricing and contracting solutions at all stages of the revenue execution process. Having systems and processes in place to effectively monitor purchasing behavior is critical to ensuring that your customers are in compliance with contractual agreement, and to know when to take action with remediation measures.

According to Ernst & Young's Pulse of the Industry 2019 report[1], to succeed and excel in today's market, "medtech manufacturers will need to utilize sophisticated data analytics to run operations on as lean and efficient a basis as possible. This means monitoring and predicting demand and distributing products rapidly and seamlessly wherever they need to be — whether inside or out of traditional health care delivery settings." Reliance on data download reports only gives you a view into what happening in a snapshot in time. Basing important business decisions off incomplete or untimely data is a dangerous strategy. In its study, EY also goes on to quote John Liddicoat, M.D., Executive Vice President and President, Americas Region, Medtronic as saying, "At the core of [our] collective efforts to accelerate progress lies a common resource: data. Not just raw data, but actionable data that informs decisions."

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[1] EYGM Limited. (2019). Pulse of the Industry 2019. Retrieved from https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/life-sciences/life-sciences-pdfs/ey-pulse-of-the-industry-2019.pdf

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Closing Thoughts

Model N is the world leader in revenue execution tools for medtech manufacturers. Model N's end-to-end revenue management solutions allow medtech manufacturers to add visibility into sales and contracting, manage and enforce complex contracts, and ensure rebates and discount payments are processed quickly and correctly. Model N medtech solutions are integrated with the leading US GPO, GHX and preconfigured to support HIDA's advanced transaction sets, including bid awards (845), chargebacks and sales tracings (844 and 867), resolved price notifications to hospitals (832) and chargeback reconciliation (849). This gives Model N medtech customers the ability to efficiently navigate the thousands of contracts they're maintaining while reducing revenue leakage.

VISIT US

at **modeln.com** for more information or contact us at **info@modeln.com** to receive a complimentary Revenue Execution Assessment and ROI Analysis with a Medtech Revenue Management expert.

Medtech manufacturers must manage complex business processes and large data volumes, and they can experience significant financial losses when revenue leakage occurs. Poorly configured and hard-to-enforce pricing and contracting strategies can result in lost profits, procedural inefficiencies, customer dissatisfaction, and risk of regulatory noncompliance—all of which can contribute to price and revenue erosion.

Partnering with Model N allows leading medtech manufacturers to propel their revenue execution operations forward with precision, efficiency and automation, driving immediate benefit to the business, by growing revenue and increasing profitability.

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