

PRICING AND CONTRACTING WITHIN THE LIFE SCIENCES INDUSTRY: AN OVERVIEW

CSC

- To manage complex contracts worldwide, life sciences companies are turning to advanced solutions to work with key stakeholders more effectively
- CSC is helping industry-leading companies change their pricing and contracting approach to dramatically improve sales and increase profits

CSC's Pricing and Contracting Solution Offering

- Strategy Consulting
 - Strategic Customer Studies
 - Contracting Strategy Development
 - IT Strategies for Contract Management
- Operational Improvement
 - Contract Operations Assessment
 - Business Process Re-engineering
 - Government Pricing Reviews
- Systems Implementation and Integration
 - Sales-Based Contracting Systems
 - Utilization-Based Contracting Systems
 - Government Pricing Systems
 - Application Outsourcing
 - Managed Services

Revenue Enhancements and Cost Savings Realized by Improving Pricing and Contracting Strategy and Effectiveness

Industry Background — Contracts Management

Due to the competitive nature of the market place, Life Sciences manufacturers must provide financial incentives to various customers such as Health Maintenance Organizations (HMO), Group Purchasing Organizations (GPO), Wholesalers, Pharmacy Benefits Managers (PBM), and Integrated Delivery Networks (IDN) to increase volume and market share for the manufacturer's products. Contracted sales can represent 60 to 90 percent of total sales and the incentives paid represent 10 to 50 percent of gross revenue. With these numbers, it is clear that a company's contracting strategies and contract administration processes are vital to drive sales and improve profitability. The lack of a strategic approach to contracting may result in significant overpayment of incentives to customers that are non-compliant with contract terms, subjecting a company to huge penalty fines. Poor contract administration processes may result in long cycle times, inefficient operations, and non-compliance with government programs. In summary, these issues represent a significant risk to profits and government compliance.

Financial incentives are provided in contracts that outline the terms and conditions that qualify the customer to receive the incentive. These terms and conditions may be simple discounts based on volume tiers or they may have more sophisticated algorithms, for example percentage over national market share. In either case, the contract organizations or channel partners must submit compliance information such as administrative fees, utilization data, and chargebacks in order to verify that they are entitled to the financial incentive.

In other situations, a third-party organization will provide the data required for performing the compliance verification. The volume of paperwork that includes contracts, membership, and claims for a single contract is enormous. A typical pharmaceutical manufacturer will have negotiated 300 to 500 contracts. And, each contract may contain incentives for each product in the manufacturer's portfolio. A Medical/Surgical manufacturer may have 5,000 to 20,000 contracts and those are typically negotiated down to the physician level. In order to receive incentives, each of these contracts must be administered on a periodic basis by processing the claims submitted by the contract organization to the manufacturer. The claims are received in a variety of formats and depending upon the terms of the contract, may not contain consistent information. Consequently, the work effort to administer these contracts is significant. "Short-cuts," "work-a-rounds," and lack of validations and thresholds on the submitted claims could result in over payments to the contract organization.

Federal Pricing and Medicaid

Federal and state legislation requires manufacturers to provide “best prices” to support their respective programs such as Veterans Administration (VA), Medicaid, State Supplemental, Medicare Part D, and the Deficit Reduction Act (DRA). Accurate interpretation and implementation of the legislative regulations is required in order to minimize the risk of non-compliance. Therefore, effective management of these processes and implementation of efficient systems is required to minimize the price exposure for these programs and ensure compliance with government regulations.

The Next Five Years — What to Expect

The current pricing and incentives market will be impacted by the following major events, some of which have already begun to be realized:

- Less clinical differentiation and weaker product pipelines will create a need for more innovative and competitive pricing and contracting strategies
- Consolidations and mergers of manufacturers and their customers have increased the claims volume and contract complexity requiring more sophisticated systems for contract administration
- Pending regulatory changes to Medicaid and other Government programs will dramatically change current processes and systems
- Communication technologies will dramatically improve contract administration functions such as chargeback processing
- Historical market drivers, such as managed care and governmental regulations, will continue to impose pressures on current business operations

The Stakes are High. How CSC’s Pricing and Contracting Services Offer Value

CSC can improve the profitability of pricing and contracting initiatives by:

- Defining contracting strategies to optimize discount structures and amounts
- Reducing rebate, chargeback, and administrative fee payments by improving claim validation tolerances and implementing effective administrative and reporting systems
- Enhancing market and business intelligence processes and systems to manage contract profitability
- Providing a balanced approach for managing compliance of state and federal government contracts
- Reducing contract management and operations costs through IT and Business Process Outsourcing

Success Factors

In order to improve pricing and contracting effectiveness, we recommend that the following critical success factors be managed:

Existence of a consensus-based business vision and plan. Defining and implementing optimal contracting strategies, processes, and systems are considerable investments that can offer a quantifiable return on investment. A fully implemented contract management vision ties together a variety of existing stakeholders, processes, and IT systems. This operational excellence drives competitive advantage.

Agreement around ownership and priority. The operations functions, such as contract negotiation, administration, pricing, federal calculations and Medicaid are all affected, but may each look to the other or to IT to assume the risk of the initiative. A balanced approach where each function carries responsibility is best.

Acceptance of technology investment value/benefits/return. Areas of exposure within a manufacturer’s contracting function can encompass an integrated approach. All key business and IT stakeholders should be involved in the decision-making around the technology investment.

About CSC

The mission of CSC is to be a global leader in providing technology enabled business solutions and services.

With the broadest range of capabilities, CSC offers clients the solutions they need to manage complexity, focus on core businesses, collaborate with partners and clients, and improve operations.

CSC makes a special point of understanding its clients and provides experts with real-world experience to work with them. CSC is vendor-independent, delivering solutions that best meet each client’s unique requirements.

For more than 45 years, clients in industries and governments worldwide have trusted CSC with their business process and information systems outsourcing, systems integration and consulting needs.

The company trades on the New York Stock Exchange under the symbol “CSC.”

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