Building a gross-to-net strategy in a fast changing market
How evolved is your approach?
Move forward with a gross-to-net model that facilitates strategic decision-making

Getting gross-to-net to the point at which it adds strategic value calls for changes to governance and process, enhanced modeling and methodology capabilities, and investments in technology that drive insight and help to mitigate risk.

Gross-to-net efforts often encounter a familiar roadblock when multiple business units that impact the processes and calculations operate independently, namely lack of collaboration. This lack of collaboration and coordination across the various business units isn’t deliberate, but it can result in real costs. Companies may duplicate efforts, fail to standardize, allocate resources inefficiently, and potentially miss out on more lucrative contract terms.

To address these challenges, a leading practice is to create an integrated, enterprise-wide gross-to-net model that goes beyond the basic accounting and finance functions. By identifying silos and establishing a common governance board, companies can mitigate common process inefficiencies such as minimal coordination, unclear accountability, and non-integrated source data and systems.

An integrated governance board helps develop clear and consistently applied processes. Business units are connected cross-functionally, and everyone understands and abides by a set of systematic controls and procedures.

What strategic questions can a gross-to-net model help me answer?

- How will price increases impact my commercial and government rebates?
- What is the optimal contract strategy to increase demand without decreasing profitability?
- Are we offering duplicate discounts on the same products that is causing revenue leakage?
- Do we have reasonable and supportable forecasting methods for various pricing and contracting scenarios?
- Can we anticipate the impact of product life-cycle events and regulatory changes?
Understanding the stakeholder interaction model across the organization allows companies to better align objectives and processes, allowing for more informed decision making, better enterprise-wide collaboration, and improved controls and processes.

**Modeling and methodology**
An effective gross-to-net model aims to increase profitability through better forecasting.

Gross-to-net forecasting may be “good enough” if it satisfies regulatory reporting requirements, but it becomes a source of value if it helps a company understand its commercial spend and improve its product investment. It is a shift from simply preparing data used for purposes of internal or external financial reporting, to creating a model that supports new product launches and also forecasts revenue. A gross-to-net model can also contribute to the understanding of customers and commercial levers by identifying customer dynamics that influence pricing and contracting.

As change continues to impact the industry from multiple directions—ongoing health care reform and the complexity of commercial and government payers—it can be difficult to pin down the true profitability of each product. A company’s approach to gross-to-net modeling should include the means to provide guidance on interpreting pricing and contracting decisions, allowing various business units to look ahead and estimate the impact of those decisions in future years. An effective model also provides analytics that help drive strategy, predict performance, and improve forecasts.

**Can your gross-to-net model answer these questions related to your business’s profitability?**

- Which rebate and discount categories drive gross-to-net differentials?
- What is the return on investment on payer contracting?
- Do multiple commercial spend categories overlap within a single script?
- What is the return on investment on rebate spend?

**Data and technology**
Gross-to-net forecasts are heavily reliant on data from various internal and external sources.

The volume of data used in a gross-to-net model can pose challenges. Such data may reside in non-integrated systems that are slow and cumbersome or decentralized. External data (e.g., prescription, retail, wholesaler, GPO) has to be sourced and verified. Claims and rebates might be processed in different systems that require electronic data interchanges to exchange information between internal systems as well as obtain external data. If data is decentralized and inconsistent, it can be difficult to carry out enterprise-wide calculations, much less to automate them.

In some cases, the result is to reconcile the differences by using offline manual spreadsheets.

As part of the gross-to-net model, companies need analytical tools supported by correct data that can not only test outcomes for a single set of variables, but also compare outcomes across a range of scenarios able to be disaggregated to a product level. Along with governance and methodology, data and technology can help analyze, predict, and create actionable insights that help enable strategic and operational decision making.

**Key risk areas in navigating the broad spectrum of gross-to-net data generally include:**

- Systems infrastructure
- Methodology
- Data extraction
- Auditability
- Ownership of data
- Data integrity
- Controls environment
Beyond the basics: the gross-to-net maturity continuum

Identifying leading practices is not difficult in the abstract. Fitting them to a specific operation and making them work efficiently and in a cohesive manner is another matter. By taking a broad view of where different industry peers have been and where they are today, it is possible to define a maturity continuum for gross-to-net forecasting capabilities and practices.

That continuum provides a reference point companies can use to diagnose and improve their own practices. By identifying a starting point along a continuous maturity curve, companies can plan the enhancements they need, and move forward with confidence.


Defining the continuum

As companies evolve their gross-to-net approach from foundational to mature to advanced, they can expect a corresponding increase in the value those approaches are able to return. Making progress in this direction requires a systematic approach.

Companies at the foundational level are likely to be adept at processing data for financial reporting, but they may not back that up with a consistent level of quality control and internal testing. They may have limited automation capabilities and still track assumptions and variabilities on disparate spreadsheets:

- Lack of ownership and limited knowledge sharing and decision-making across departmental silos
- Spreadsheet-based analysis with non-integrated data and systems
- Inability to manage volume and sources of data and verify required inputs
- Unsophisticated forecasting tools and scenario modeling capabilities
- Preparation intensive close process with limited analysis

Companies that have moved to the mature level have adopted a standardized gross-to-net model that defines controls and offers some degree of predictability, which minimizes variances and supports a timely financial closing process. While spreadsheets may still be used, such companies have likely started to develop algorithms that they can apply uniformly across business units, franchises, and brands. Companies at this stage of maturity typically have meetings and cross-functional teams that guide the gross-to-net process and facilitate strategic decisions:

- Knowledge sharing is still siloed, but established governance contributes to greater alignment
- Ability to forecast within an acceptable range and make reasonable estimations
- Automated data collection whenever possible, including verifications of data completeness and integrity
- Continually monitor the gross-to-net model and the assumptions built into it
- Understand commercial spend categories such as discounts, rebates, and coupons, and identify the ones that drive gross-to-net differentials

When companies reach the advanced level, they have achieved data integration and verification, have well-established controls, and have more defined cross-functional governance. They leverage an automated gross-to-net technology solution that provides continuous improvements in algorithms and modeling. Gross-to-net strategies are proactive and inform business decisions, improve commercial spend, and allow for increased control over profitability:

- Established cross-functional governance structure with defined roles and responsibilities for accountability
- Analytical approach to discretionary spending that is based on integrated prescription-level commercial data
- Leverages new technologies that provide enhanced data integration and mapping capabilities
- Perform analyses that help make sense of utilization and build assumptions for demand-based estimates
- Accelerated financial close process and insightful analytics
The bottom line: an effective gross-to-net model can help drive business value

An integrated and strategic gross-to-net model, built on a foundation of reliable data, can be one of the most effective analytical tools within a life sciences company. It can not only help detect potential compliance and pricing risks, but also guide the company toward new areas of profitability. It can also contribute to making a company’s operations more efficient, while simplifying the ever-complicated and expanding requirements of finance and compliance regulators.

As companies move along the gross-to-net maturity continuum, they can improve their ability to forecast more accurately, identify trends, aid in more timely financial closes, and understand commercial profitability that can drive business value.