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ZS Interview: With Billions of Dollars at Stake, Pharmaceutical Companies Reassess Their Contract Operations

Participants: Pratap Khedkar and Murali Venkatesan

As a back-office pharmaceutical function, administering rebate programs to government and private payers lacks the high-profile glamor of R&D or marketing. But huge amounts are involved, and with health-care reform looming and data sources proliferating, rebate administration has become enormously important.

Pharmaceutical companies rebate billions of dollars each year to payers; a mere percentage-point difference in the error rate means millions.

Pratap Khedkar, a Philadelphia-based Principal for ZS, and Murali Venkatesan, a Principal based in Princeton, N.J., who consult with pharmaceutical companies on their contracting and rebate operations, spoke about how and why many companies need to change their approach to rebate administration.

About the Participants

Pratap
Khedkar,
Principal

ZS Associates,
Philadelphia



Pratap heads ZS's Managed Care practice area, and works with the pharmaceutical industry in numerous areas, including managed care strategy and decision support, customer segmentation, marketing mix modeling and sales force design.

Murali
Venkatesan,
Principal

ZS Associates,
Princeton, NJ



Murali has more than a decade of experience in sales and marketing IT consulting projects, data warehousing and data management services, and works extensively with the pharmaceutical industry on commercial operations and rebate administration.

How much is involved in rebates for pharmaceutical companies?

PRATAP KHEDKAR: Today, the industry in the United States is paying about \$40 billion annually in rebates, on sales volume of \$200 billion to \$300 billion. That means pharma companies are processing hundreds of billions of dollars of transactions, and have to go through all the individual records from multiple sources, ensure accuracy and write the checks.

In the past, you might find 2% were ineligible for rebates, which meant you'd pay rebates on a lower volume. But today, there are so many additional sources of data that some pharmaceutical companies may not have experience with handling. You might find 6% errors today. The difference between 2% and 6% is not an insignificant amount of change.

How does health-care reform figure into rebates?

MURALI VENKATESAN: The changes in health-care reform are causing a lot of headaches for both providers and payers. There are so many pieces around Medicare and Medicaid that current health-care reform will affect, but even more down the pike, because there's going to be more restrictions from payers. Pharmaceutical companies need to have a good understanding of the law, and be able to back up whatever rebating decisions they have to make.

PRATAP: Another element to consider is that the insured population is going to go up, probably 7% to 10%, which increases your base on which they're going to pay rebates—\$200 billion in pharmaceutical spending today will be closer to \$220 billion after reform goes into effect.

The government is going to become a bigger payer, with all uninsured coming into coverage in 2014. Something else you have to consider is that government is telling the industry it has to give bigger payouts. Medicaid, which has a mandated rebate of 15.1%, will be 23.1%—about a 50% increase.

Health-care reform notwithstanding, why do companies need to review their rebate administration operations?

PRATAP: The process has been around for a long time, but in the past, people were just looking for simple errors. You would get all this data, calculate how much was sold, how much was discountable and figure out the amount of the rebate check.

Companies took the data for granted and found mostly obvious errors because there was no way to double-check the data. But in the last five years, lots of third-party data sources have come into being and matured. Now you're in a position to double-check in a way you could never before.

With so much at stake, are pharmaceutical companies investing in their rebate administration operations?

PRATAP: In order to do this right, it may require a fair amount of investment in systems, processes and people. A lot of midtier and regional companies look at data and may check it, but they won't check every transaction, like you don't check every call you make on your phone bill.

One thing it's important to point out is that you don't have to buy all this technology to make a strong rebate-admin operation. You can help do that process rigorously and inexpensively—if it's being done at all—with offshoring. Large companies are also looking for more inexpensive ways of operating. Offshoring is one way to do that. It's not easy, but is worth exploring for companies of all sizes.

MURALI: A lot of the smaller companies are not making the investments. They're hesitating because they don't think they're big enough and lack the infrastructure to QC it. They simply write the checks.

But like Pratap said, it's a popular misconception that you have to purchase and operate a lot of new technology to set up proper rebate-admin operations.

How hard is it managing different data streams in rebate operations?

PRATAP: There are companies that do one or the other—vendors that sell third-party data but don't handle the payer data or, on the flip side, pharmaceutical companies that have people in finance who handle payer data all the time, but don't have experience with third-party data.

The data that comes from a hundred different payers may have a hundred different elements of quality. At a single pharmaceutical company, one payer may have an error rate of 2% and another may be 10%, and end up with a rate of 6% overall.

MURALI: The accuracy of identifying if a rebate was paid the right way needs human input. Strong systems and processes are necessary, of course, but only go so far. The systems and processes need to make operations seamless, and make sure rebates are accurate, but at the end of the day, we still need to rely upon a human being to cross your t's and dot your i's, to make sure your software is accurate and to keep it fresh.

Are companies using third-party data to the greatest advantage?

MURALI: One of the biggest problems has been and continues to be that many of the players in the industry don't understand data management; it doesn't come naturally. Some of the larger ones know how to generate data well, collect and send it. The biggest gap is in the quality of data between payers to pharmaceutical manufacturers.

PRATAP: And a lot of the large pharma companies have data they use for patient targeting and marketing, but not for contract operations and rebate administration. One reason is that rebate admin sits in a much different place in the organization than marketing—it practically sits in finance. The data source could be easily leveraged, but very few of the companies are putting two plus two together.

It sounds as if you're saying rebate-admin operations can provide competitive advantage, but few people realize it.

MURALI: Almost everywhere I go, rebate admin is almost like a stepchild. This group has one goal in life: what rebates to take. They're not thinking: "How do I mesh this with other data sources?" or "How do I make better decisions on what rebate to pay?" or "How can I help marketing?"

Companies that can use all of this data efficiently across the enterprise will really be in a great situation to improve rebate admin, marketing, everything. It's almost as if there's an unseen opportunity right under their noses.

About ZS Associates

ZS Associates is one of the largest global firms focused on sales and marketing effectiveness. ZS combines deep expertise with rigorous, fact-based analysis to deliver management, business operations and technology consulting to help companies improve performance and results.

With 19 offices around the world, ZS Associates has worked with more than 700 companies in 70 countries across consumer products, energy, high tech, insurance, medical products and services, pharmaceuticals and other industries. Founded in 1983, ZS comprises multiple affiliated legal entities. Find more at www.zsassociates.com.



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