Planning, Budgeting, and Forecasting in the Life Sciences Industry

Developing winning strategies and converting them into actionable plans

High performance. Delivered.
Introduction

In the face of slow growth in mature markets, drug patent expirations, and regulatory pressures, life sciences companies have an urgent need to find ways to better anticipate risk and uncertainty and plan for the future. This evolving business climate increases the importance of a strong planning, budgeting and forecasting function for companies as they strive for high performance and sustainable competitive advantage.

Despite the vital nature of this function, companies in the life sciences industry experience difficulties in linking planning to effective action; these include:

- The inability to link strategy to actual results;
- The rapid obsolescence of static business plans and budgets due to delays in new product launches, volatility in the markets, and fluctuating commodity prices and exchange rates;
- Increasing regulatory scrutiny and compliance mandates; and
- The larger share of revenue and cost structure represented by contractual agreements and joint venture revenue flows.

To address environmental factors such as uncertainty, complexity, and geographic expansion, life sciences organizations should optimize their planning, budgeting and forecasting capabilities. Doing so will increase the overall efficiency and effectiveness of the company’s finance function. However, to achieve these benefits, life sciences companies need tailored solutions that closely align with specific organizational requirements.
Planning in Life Sciences – the Challenge

It has been our experience that when it comes to planning, high-performance life sciences companies are more likely to take immediate steps to help improve their capabilities. The central focus is gaining a better understanding of past performance. Insights captured can then be translated into forward-looking targets that are closely aligned with actual business conditions. This greater precision and accuracy in forecasting can contribute to greater shareholder value.

We have identified four major activities—Scenario Planning, High-Performance Forecasting, Integrated Business Planning, and Returns Analysis— that we believe can help drive value in the life sciences industry.

Scenario Planning to Manage Uncertainty

Scenario planning focuses on three key actions:

1. Pre-defining scenarios;
2. Use scenarios in conjunction with contingency planning; and
3. Monitor leading indicators of the business environment.

Scenario-based enterprise performance management (EPM) goes beyond conventional scenario planning in that scenarios are integrated into all planning and performance management processes and become a core capability for ongoing management of the business. Additionally, advanced scenario planning incorporates multiple tools and methodologies to determine the most effective approach to resource allocation. In today's fast-paced economy, pre-defined scenarios in conjunction with contingency planning and environment monitoring can help life sciences companies develop agility, in spite of high levels of volatility and complexity.

In anticipation of expected changes to the US healthcare system, one life science firm identified a risk in understanding how their business might react in the face of uncertain market realities. However, the firm mitigated this risk by incorporating scenario planning as a periodic activity in their ongoing strategic planning and updates calendar. Using scenario planning, the firm evaluated expected business performance under several different market situations. The outcomes of this process helped influence the company's long-term business strategies and also led to short term improvements that optimized their current business operations.
Achieving High Performance Forecasting

Three leading forecasting practices can help companies optimize their response to rapidly changing conditions. Leading companies use these techniques to balance insight and action.

1. Linking tolerance thresholds for key volatility and material factors to dynamic forecasting methodology;
2. Re-evaluating the forecasting timeline to help ensure maximum insight and efficiency; and
3. Establishing a structured process to leverage forecasts for driving corrective actions proactively.

One life science client found that their planning, budgeting and forecasting process cycle times were too lengthy and exceeded benchmarks by a wide margin. In addition, their planning tools were not integrated and offered limited functionality. The client designed a more integrated and efficient planning process, improving calendar sequencing, eliminating non-value added activities (such as target changes), merging reviews, and automating manual processes. As a result, the client experienced a 50 percent decrease in cycle time along with a reduction in planning level of detail.

Source: Accenture, Planning, Budgeting and Forecasting (PBF) in the Life Sciences Industry, July 2013
**Integrated Business Planning**

Integrated Business Planning (IBP) models attempt to balance a company’s financial performance with its demand, supply and market realities. This represents a holistic and flexible approach to the organization’s planning process and helps life sciences companies coordinate product demand with R&D, product supply, and financial planning.

A life sciences client recently found that its business processes and systems were not fully aligned. Current e-business processes were not consistent across areas and countries. Systems lacked integrated capabilities and were not aligned to support IBP goals and key performance indicators (KPIs). The client turned to IBP as the solution to pull the various inputs together. After implementation, the client’s new IBP solution will integrate product development, demand planning, and supply chain with the financial planning process to help ensure consistency and standardization.

**Sales Returns, Chargebacks and Rebates Analysis**

In forecasting their revenues, life sciences companies have to account for and estimate the effects of sales returns, chargebacks and rebates. An accurate evaluation of sales returns, chargebacks and rebates can be crucial during the forecasting process to determine the correct impact on revenues for extended periods. Federal rules are also affecting pricing for programs like Medicaid, and in turn, planning and forecasting of net revenues. For example, Federal rules require that states pay for brand name prescription drugs based on the lower of the estimated acquisition cost of a drug or the usual customary charge to the public. This makes the final step in the approach crucial for life sciences companies.

Recently, an Accenture client saw the need for process formalization and tools to support the gross to net forecasting process. A recent acquisition also required process harmonization for the gross to net (GTN) solution. The client set out to implement a solution that was flexible and scalable to support the combined business model. This entailed a transition from manual processes to more efficient, cost-effective and robust processes. A new reporting platform was also introduced to guarantee an official shared reporting structure and control for business trends on a quarterly basis.

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Source: Accenture, Planning, Budgeting and Forecasting (PBF) in the Life Sciences Industry, July 2013

![IBP Model Diagram](IBP_Model_Diagram.png)
Bringing it Together: Integrated Planning Calendar

Each of the aforementioned activities individually represents a critical element for improving the planning cycle for the life sciences industry. However, to help realize optimal business outcomes and drive sustained change, we suggest the use of a single enterprise-wide planning calendar. This calendar will sequence and time-box planning activities based on logical process flow, work effort required, and key scheduling dependencies. The result is a mechanism to effectively flow strategic corporate plans and targets through to tactical budgets. This can help enable target realization, supporting rolling forecasts that yield a best estimate of future performance.

Leading Practice—a Common Calendar

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Source: Accenture, December 2014

Alternative scenarios
Conclusion

While the aforementioned areas all serve critical roles within leading organizations, companies need a clearly defined roadmap to help chart the journey to more efficient and effective planning capabilities. In the life sciences industry, a clearly defined roadmap to design and implement planning programs across regions and business units can help companies reduce complexity, risk, and uncertainty.
Contacts

If you would like to find out more on planning, budgeting, and forecasting and how Accenture can help you implement an effective structure aligned to your needs, please contact one of our subject matter experts.

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Notes

1 Scenario Planning: Fostering Long-Term Strategic Thinking - Merck & Co., Inc. Frost & Sullivan, Dec 2011.

Access at: http://www.frost.com/sublib/display-report.do?id=9819-00-20-00-00&bdata=aHR0cDoL3d3dy5jb20vc3VibGIlL3N1YnNjcmlwdGlvb1pmbmRleC5kbnZzc3VhZ2UtMjIwNi0xMDE3MzYyMjAwNy5wYWdlX2Fsc2VudF9I...subscriptionId=9819 and http://www.gilcommunity.com/files/4513/6131/4002/Srinivasan_Krishna_Presentation_-_Scenario_Planning_Fostering_Long-Term_Strategic_Thinking.pdf


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