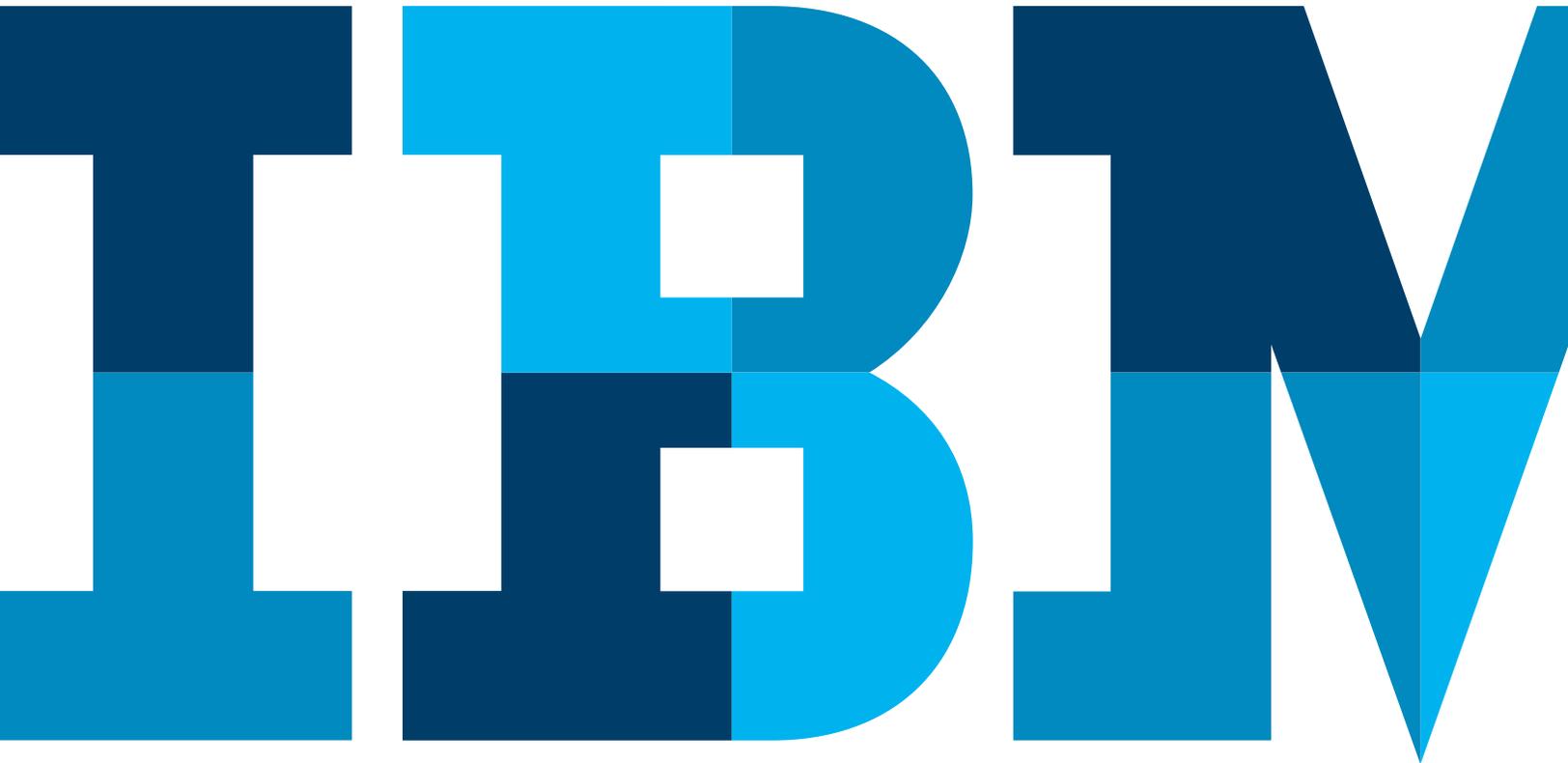


# Build for growth: Master the ICM advantage in the life sciences

*How Incentive Compensation Management fuels dynamic, high-performing pharmaceutical and medical device businesses*



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## Introduction

The pharmaceutical and medical device sectors are pillars of the worldwide healthcare economy. These large, complex and dynamic industries fiercely compete to research, mass produce and market new medicines, equipment and technologies. Manufacturers must constantly refresh patent portfolios and secure mindshare from healthcare providers, while complying with rigorous government regulations.

These two sectors operate on a large scale. IMS Health projected that the global pharmaceutical market reached USD 880 billion in 2011.<sup>1</sup> The worldwide market for medical devices was approximately USD 321 billion in 2011, based on research by EvaluatePharma.<sup>2</sup>

However, trends toward greater specialization in medicine and healthcare delivery have made it more important for organizations to employ incentives as they open up new markets and defend existing ones. This phenomenon is especially notable for motivating large life sciences sales forces. New therapies, and devices with high costs and potentially high profit margins, are now aggressively pursued to treat very specific aspects of unique health conditions.

Success in pharmaceuticals and medical devices depends on strategically leveraging intellectual property and adeptly using talent to drive innovation and win over sophisticated, informed audiences. Considerable investments are required in medical, technical and research expertise, as well as in sales and marketing professionals experienced in the life sciences industry.

Now more than ever, variable compensation plays a central role in focusing teams on objectives, fostering initiative and achieving higher performance. By setting rewards based on clearly defined milestones, variable compensation programs help optimize the performance of expensive human resources and result in life sciences companies that are more “built for growth.”

With incentive compensation management software, variable compensation programs can more easily and effectively implemented throughout an enterprise’s various divisions and departments. Incentive compensation management software streamlines the design and administration of plans, automates manual compensation processes and improves line-of-sight into actual trends and outcomes.

## Major challenges that necessitate compensation planning

Pharmaceutical and medical device companies must contend with very demanding business conditions. Product development pipelines are incredibly costly, research-intensive and marked by uncertainty. For instance, analysis by Forbes revealed that it can cost USD 5 billion to bring a new medicine to market.<sup>3</sup>

The commercialization of promising discoveries is typically a lengthy endeavor, encompassing demanding approval processes rarely found in other industries. Because of concerns about public health and the actual efficacy of discoveries, extensive government scrutiny is to be expected.

Once a novel product is available, various audiences then need to be engaged, educated and won over to build sufficient awareness for a successful product launch. Sales and marketing efforts can involve physicians and healthcare institutions, group purchasing organizations, government organizations, distributors, wholesalers and even third-party experts.

Eight major issues are driving changes in the life sciences industry and discouraging complacency in pharmaceutical and medical device companies:

1. *Globalization*

Companies are expanding outside of home markets and targeting new opportunities in emerging markets. For instance, China is the fourth-largest medical device market with USD 17.1 billion projected for 2013.<sup>4</sup>

2. *Market volatility*

Competition between enormous conglomerates is intensifying, while markets are experiencing dramatic change due to acquisitions, spin-offs, partnerships and waves of patent expirations in pharmaceuticals. For instance, the so-called “patent cliff” placed USD 35.1 billion<sup>5</sup> of drug sales at risk in 2012 in the US alone to competition from generics.

3. *Shareholder expectations*

Demands for greater performance are unrelenting, as shareholders respond to success by raising their expectations for returns on investments. These demands can impact the priorities of bellwether pharmaceutical and medical device manufacturers.

4. *Government*

Regulatory procedures and approval processes are demanding and complex, healthcare systems vary from country to country, and governments seek to constrain costs through various policies such as tightening reimbursements in social programs.

5. *Complexity*

Channels for marketing, selling and servicing solutions are becoming increasingly sophisticated as life sciences firms strive to achieve optimal coverage of markets under government oversight.

#### 6. *Specialization*

New niches and unique innovations or devices need to be debuted and brought to market. Specialization is increasingly necessary to drive profitable growth via a strategy of building portfolios of very specific, high-value products and intellectual property.

#### 7. *Market mindshare*

Buying centers and clinicians are sophisticated, informed audiences that are relatively stable in numbers and have limited time available to receive information from life sciences firms' staff and partners.

#### 8. *Talent*

Skills are critical for building intellectual property and market differentiation, requiring doctors, scientists, marketing and sales people fluent with life sciences markets and innovations. Sourcing the right people can be expensive and challenging.

These issues raise a central question. How can life sciences organizations best navigate these trends and position themselves to grow and succeed? A crucial factor is the human element and how it is compensated and motivated to perform, take initiative, be innovative and excel in very sophisticated but highly regulated industries.

## **The impact of incentive compensation management**

The success of pharmaceutical and medical device manufacturers is dependent on highly skilled human resources in areas such as research, product development, marketing and sales. Considerable experience is required to build brands, manage sales and distributor channels and deliver best-in-class product launches. Variable compensation, in the form of incentive compensation management programs, helps guide and motivate these valued resources to achieve maximal goals and objectives.

Incentive compensation management systematically defines and rewards contributions that advance corporate growth strategies. Performance-based compensation tools such as incentives and commissions have long been used, but superior methods are needed to make programs more effective in driving growth. Put another way, companies need to acquire more productivity from each dollar spent on people.

Compensation outlays can be significant. Companies in the pharmaceutical industry have employed some of the largest sales forces eligible to receive commissions. In the medical device industry, payroll costs can exceed the equivalent of 17 percent of revenues,<sup>6</sup> while commissions for the sales of many types of medical equipment can “fall between 15 and 25 percent”<sup>7</sup> depending on the transaction.

Moreover, incentive compensation is applicable to many roles in a life sciences enterprise:

- *Management*  
Executive performance has to be aligned with shareholder expectations, while line management must guide and mentor teams more effectively.
- *Research and Development*  
The pace and rigor of research and development has to be elevated to replenish pipelines, to expand portfolios and to protect and extend lucrative intellectual property, such as extending exclusivity on patents in pharmaceuticals.
- *Compliance*  
Administrators need to more proficiently manage contracts and relationships with third parties, such as research pacts and distributors. This vigilance is needed to better enforce commitments and mitigate revenue leakages from programs such as rebates and charge backs.
- *Marketing*  
Marketing and advertising must build awareness, demand and stronger brands. This requires better ideation, planning and execution of product launches and marketing programs, including better use of detailing, marketing collateral and direct-to-consumer advertising.
- *Support*  
Support is needed to improve the responsiveness, professionalism and effectiveness of staff delivering remote e-detailing, clinician support and onsite technical services at healthcare facilities.
- *Sales*  
Sales professionals have to be encouraged to increase engagement and strengthen relationships with healthcare institutions and partners, to drive growth in prescriptions and win more orders for medical devices and healthcare products.

## Incentive compensation management imperatives

Commissions, incentives and bonuses have been extensively used in life sciences, but in order to achieve superior performance in organizations, practices need to be refined and constantly revamped within the context of a comprehensive, integrated program. Of critical importance is the ability to handle complex compensation plans and rules for large payee populations.

For example, pharmaceutical sales representatives do not win orders like other commissionable sales people, but instead are compensated based on changes in patterns of prescriptions written in defined territories. There may be complicated rules designed to drive sales activity towards targeted physicians. Moreover, different philosophies may be preferred for employing quotas, goals or relative rankings to determine awards of variable compensation.

Pharmaceutical and medical device companies also invest considerable effort in fine tuning or recalculating quotas and objectives within a fiscal year, more so than in other industries.

More proficient and consistent planning and execution of outcome-based variable compensation can coax higher productivity from workforces. With greater productivity, the ability to achieve higher rates of growth increases accordingly.

However, initiatives to improve incentive compensation require substantial organizational capabilities of transparency, insight and agility. Organizations should adopt a five-step approach when attempting to modernize and expand incentive compensation management processes in an enterprise:

1. *Planning*

Gain a baseline understanding of the opportunities and challenges with existing variable compensation programs, then benchmark projected productivity improvements. At the same time, define and prioritize programs that demonstrate the greatest efficacy.

2. *Implementation*

Revise compensation programs, draft plan components, educate staff on new compensation methods and tactics, deploy necessary tools and implement change management.

3. *Processing*

Deploy systems and applications to accurately compile information, most notably activity data, prescription data, and transactional data. Manage and execute crediting rules, automate payment processes, and generate reports.

4. *Monitoring*

Regularly assess the validity of assumptions, track performance levels against plans, audit variances, gain early warning about favorable and adverse trends, revise projections on future compensation costs.

5. *Updates*

Refine decision making on interim revisions to plans, adjust goals or quotas, improve responses to performance trends, entrench and bolster mentoring competencies in line management.

## **Incentive compensation management solutions**

Support for fact-based strategies and tactics plays a central role for incentive compensation management programs in the life sciences. Pharmaceutical companies in particular must invest in expensive workforces in order to gain a better grasp on prescribing trends and on healthcare providers' sentiments.

A strong technical foundation helps ensure that decision makers are working with the right facts and that subsequent strategies and plans are swiftly and effectively implemented. Software tools can help business users take advantage of sophisticated analytics and data management capabilities, while inefficient manual steps can be automated out of processes, reducing errors and cycle times.

These capabilities are invaluable to life sciences firms that must deal with complex business practices for launching and managing products. A complete incentive compensation management solution will offer components for planning, analysis, execution and administration, including:

- *Modeling*  
Define and explore all significant factors relevant to proposed variable compensation programs. Simulate alternate scenarios with different plan components and perform “what-if” analyses. Identify optimal formulas, rates, sets of incentives, goals and objectives.
- *Calculations engines and payment processing*  
Automate crediting procedures with calculations engines. Process data and transactions against prescribed rules and formulas. Forward details on disbursements to the appropriate systems, such as payroll.
- *Analytics and forecasting*  
Conduct historical, trend and multidimensional analyses. Implement ad hoc reports and dashboards to track payouts and key performance indicators. Use predictive analytics and project future compensation expenses.
- *Workflow and process automation*  
Guide and automate key steps in processes to eliminate manual work and increase the speed and rigor of recurring tasks. Automation can include processes such as constructing and updating plans, sharing documents and handling disputes.
- *Administration*  
Ensure data is correctly consolidated and cleansed. Facilitate oversight of plans and payee details. Expedite revisions and mass updates to rules, formulas and plan components.

## Benefits of incentive compensation management software

Incentive compensation management systems can provide substantial benefits to high tech companies in areas related to process integrity, process efficiencies, transparency and agility. In order for users throughout the enterprise to capitalize on its benefits, an incentive compensation program should have the following characteristics:

- *Integrated*  
The data, rules, tools and reports are all centralized in one logical place that can be easily accessed and used by people in different roles and departments, such as business analysts, compensation specialists, sales operations, HR, finance and sales. Data can be automatically moved between systems, such as payroll, dashboards and quota management applications.
- *Robust*  
Users enter an environment that is focused on eliminating errors, and makes it easy to efficiently audit and fix potential mistakes with data and calculations. Moreover, automated integrations with external systems such as payroll eliminate points of failure. Dispute resolution capabilities are also provided to handle complaints from staff and partners.
- *Secure*  
Compensation involves sensitive information on labor costs, sales data and even, in some cases, margins. Solid security must be achieved with encryption, monitoring tools for tracking changes, and standards such as HIPAA, SSAE 16, ISAE 3402 type 1 and the ISO 27000 series.
- *Dynamic*  
The solution helps drive change by providing clarity on what works and what does not. Furthermore, it helps ensure that any necessary adjustments to incentives, plan components, key performance indicators, objectives, goals, or other factors can be easily made. Plan components can also be reused and libraries of best practices on successful incentive compensation management methods can be developed.
- *Scalable*  
Installations can take on ever-increasing demands without degrading performance. Companies can add staff, partners, business units, processes, new methodologies and tactics, and still enjoy the same level of performance or better.

## Key takeaways

Sustaining growth is a primary concern in the life sciences industry, especially as markets change, regulation becomes more complicated, product pipelines evolve, patents expire and greater specialization in innovation is required. As a result, pharmaceutical and medical device companies are reexamining how outcome-based, variable compensation can improve productivity.

Life sciences companies can “build for growth” by deploying incentive compensation management practices skillfully and consistently in multiple departments, such as research, development, marketing or sales. Incentive compensation management systems can dramatically improve the analysis, data management and process automation necessary for implementing world-class variable compensation programs.

With the right incentive compensation management software, successful practices can be replicated, scaled up and modified as business practices, product portfolios, markets and regulatory environments change.

For the following reasons, incentive compensation management software is increasingly vital to the success of life sciences companies:

- Pharmaceutical and medical device companies must modernize incentive compensation programs in order to drive substantive improvements in labor productivity. It is essential that these companies get staff to work more effectively with sophisticated healthcare institutions under close governmental oversight.
- Incentive compensation represents an invaluable tool in driving greater focus and execution in support of specialization strategies, in developing portfolios of unique, high value, high margin products with significant growth potential.
- Greater labor productivity directly translates into an increase in an enterprise’s capacity to grow. This is especially true in the life sciences, because labor productivity involves achieving behaviors that consistently resonate with buying centers, influencers and clinicians.
- Pharmaceutical companies must be able to handle complex data sets and compensation methods that are dynamic and subject to change, and apply this complex data to some of the largest payee populations.
- Incentive compensation management systems deliver essential capabilities for rationalizing and automating complex compensation processes. This improves visibility into the efficacy of tactics and strategies, and systematically drives higher performance from diverse workforces.
- Incentive compensation management technology initiatives should focus on improving process integrity, process efficiency, business agility, transparency and business intelligence regarding variable compensation practices.

## For more information

To learn more about IBM Business Analytics solutions, [contact](mailto:ibm.com/spm) your IBM sales representative or visit: [ibm.com/spm](http://ibm.com/spm)



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Route 100  
Somers, NY 10589

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