Ready or not, change has arrived for the pharmaceutical industry, driven by the dramatic increase in competition and the proliferating regulatory climate. Established, comfortable processes used for years with a few large wholesalers must now accommodate hundreds or thousands of new customers, usually pharmacies. The direct to pharmacy (DTP) business model is attracting many top companies, but before you leap into DTP, take a long moment to consider and plan for the effect such a change will have on your financial processes, particularly Order to Cash (OTC). Companies that fail this basic step will inevitably struggle to realize benefits from the transformation.

Shifting from the traditional wholesale model affects the entire end-to-end process of ordering, billing, and shipping products. Of all the emerging distribution models—classical wholesale, direct to pharmacy (DTP), and restricted wholesale—the direct to pharmacy model offers the greatest advantages in terms of controlling how the product is sold and building the company’s brand. However, selling to thousands of pharmacies is quite different from selling to a few wholesalers, and most pharmaceutical companies’ Order to Cash (OTC) processes are not configured to handle this change. Creativity and foresight in addressing some basics will alleviate the majority of challenges encountered by companies that have made this transition and prepare your organization for the new business world facing Pharma. A summary of the type of challenges to be realized across the end-to-end OTC process is presented in the graphic below.
The impact of change on OTC

The Order to Cash function, which encompasses master data management, order taking and fulfillment, invoicing, and Accounts Receivable processes (AR), is directly impacted when a sales model changes. Shifting to the DTP model creates the potential for confusion, unhappy customers, and suddenly overwhelming your staff with the increased volume of transactions. To avoid these outcomes, four critical processes must be addressed:

Master data must be accurate and accessible

The DTP model may boost your customer base from fewer than 1,000 to 15,000 customers or more. You will need efficient mechanisms for assessing credit, handling customer inquiries, and updating customer information, and you may have to rethink your credit terms.

For example, the most efficient means of signing up new pharmacies and hospitals is with a dedicated customer service portal where customers can provide their own information directly. To overcome the issue of assessing creditworthiness, establish a team of customer service agents and credit review analysts during this initial period. Many pharmacies may not have a credit history available for review. In some cases, you may need to consider less lenient payment terms for these smaller customers to address an increased debt risk.

Interestingly, many of these “new” pharmacies might already be set up in your ERP through contracts with your wholesalers. Now you will be selling to them directly, so you will need additional information such as license data, ship-to addresses, payment terms, and billing details. The self-service portal provides additional benefit in making that information easily accessible to both you and your customers. The portal also increases the accuracy of the data and helps keep it more readily updated.

The ability to manage customer service well becomes critical to customer retention in the DTP model. With the new, larger customer base, your organization will be fielding 2-5 times the number of calls you handled under the wholesaler model. You cannot afford poor customer service that may drive away business, so consider setting up a dedicated call center or leveraging a Logistics Service Provider (LSP) to manage the increased volume. An LSP model provides more advantages in this regard than a restricted wholesale model; however, pharmaceutical manufacturers must realize that for the pharmacies this new model is disruptive. Instead of calling one wholesaler, they now need to interact with many wholesalers or LSPs.

Order management becomes critical

With DTP, your organization will no longer be handling a few large orders from a few large customers, but thousands of smaller orders from many customers. In the top five markets in Europe, the overall volume is expected to increase from 703 million to 97.9 billion transactions per year in the absence of full-line wholesalers. In markets where a DTP model has already been implemented, failure to deliver urgent orders and stock outs have been the most critical complaints from pharmacies. A lean and efficient order management system is, therefore, crucial.

Most drug manufacturers are accustomed to receiving those few large orders per month via electronic data interchange (EDI), which may not work with all of your new customers. You must now be prepared to receive orders by email, fax, or online portal. Here again, careful planning and a willingness to rethink current processes and systems can actually boost efficiency and effectiveness in your customer service despite the increased volumes. A correctly designed technology interface can automatically validate and process the bulk of these orders, speeding delivery and cutting costs.

Some Pharma companies shifting to a DTP model leverage outside expertise by turning management of their supply chains over to an LSP. Some have completely outsourced or sold their distribution centers (DCs). Tight integration between the manufacturer’s and the LSP’s order management and supply chain visibility platforms is required to build an efficient order management system. Managing the LSP relationship is also important and begins with selecting the right LSP. Start by evaluating their experience with the DTP model. Most service providers have dedicated DTP product and service offerings and have made significant investments to enter this market. You must also assess the provider’s technology capabilities, such as visibility tools and web communication methods. Look at transportation performance and warehouse and distribution management capabilities as well.

Invoicing becomes a business of volumes

As with orders, the shift to DTP with its greatly increased billing volumes may stress your current invoicing processes. This is, therefore, an ideal time to assess your current billing processes and payment technologies to achieve even greater year-on-year return on your transformation investment. While most Big Pharma manufacturers and other business-to-business (B2B) enterprises use EDI as the prevalent model for billing and chargebacks, pharmacies or hospitals might not have such platforms or prefer physical invoices. Most small to medium
businesses prefer to view and pay bills online. It is smart policy, therefore, to ask during the initial phase of signing up pharmacies if they would be interested in electronic billing (not EDI). If the response is good, consider setting up an electronic invoice presentment and payment (EIPP) platform. This offers the triple advantage of paperless billing at lower cost (Billentis estimates that EIPP can cut the average cost per invoice for issuers by 57%1), online payment with lower risk of bad debt, and higher customer satisfaction. If you find yourself forced to set up a shop for invoice printing and shipping, consider outsourcing this function to a provider.

However you manage invoicing under DTP, you will end up with many invoices of considerably smaller amounts, making billing a business of volumes. Keep in mind as you design your new system that the complexity of the process flows into the next OTC process of collections and AR.

Accounts Receivable needs smarter strategies

Collecting 70-80% of your AR from five or six wholesalers is a relatively easy process. Collecting from hundreds or thousands of customers is more complex, but need not be daunting.

Analytics, better processes, and supporting technologies are all key to high returns in managing high-volume AR. An analytics-based tiered collection strategy is one of the most effective means of focusing effort and efficiently using available resources. Analytics peer deep into your historical data to understand how much each customer contributes to Days Sales Outstanding (DSO). Under DTP, pharmacies will be less wary of order blockages, which means manufacturers have fewer means to force timely payments. Segmenting your customers based on payment behavior allows you to focus on high-risk accounts.

However, segmentation alone is not enough; a technology platform that can perform much of the initial filtering for low-risk customers enhances customer goodwill and maximizes resources. A letter process such as auto-dunning for this customer segment allows your collection managers to allocate high-risk accounts to collection agents. An intelligent technology solution, especially one created specifically for AR, such as Genpact’s cloud-hosted Akritiv platform, efficiently manages the higher volume of invoices and collections activities, aggregating all your emails, notes, and promise-to-pay dates in one place and creating task lists to help collection agents take action when it is most needed.

Minimize risk up front by converting as many high-risk pharmacies as you can to a direct debit model. The EIPP platform discussed earlier can reduce the risk of non-payment by putting the pharmacy’s billing and dispute data in one place. Pharmacies can pay the whole invoice or specific line items through the online portal. Be wary of early payment discount models to further incentivize payment, however. In most instances, making a business case for them is difficult in such a distributed revenue model.

A smart approach yields competitive advantage

Changing to the DTP model offers attractive advantages to companies focused on growth. Enough Big Pharma companies have taken the leap for us to evaluate the challenges and understand some nuances of the transition that will make it easier for others to follow. Options for companies thinking of converting their business model to DTP include:

- Converting an existing wholesale customer into a service provider that manages shipping and distribution
- Engaging an experienced third-party provider to optimize processes for the broader customer base and the expanded service and compliance requirements
- Leveraging provider or third-party bolt-on tools and technology platforms that will best integrate with existing systems and provide capabilities for data management, customer service, and supply chain visibility
- Centralizing or decentralizing back office operations to address local language requirements, regulatory and compliance needs, etc.

Whatever the transition strategy or final delivery model, Pharma companies must first understand and address the impact on every OTC function before moving ahead. Those companies that do not prepare their OTC processes for the higher transaction volumes and more diverse customer base risk losing customer confidence and trust that will certainly affect long-term revenue.

The next white paper in this series will delve deeper into the process-level nuances of Order to Cash changes under the direct to pharmacy model.

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1E-Invoicing / E-Billing: The Catalyst for AR/AP Automation, Bruno Koch, Billentis, April 12, 2013
About Genpact

Genpact Limited (NYSE: G) is a global leader in transforming and running business processes and operations. We help clients become more competitive by making their enterprises more intelligent: more adaptive, innovative, globally effective and connected. Genpact stands for Generating Impact for hundreds of clients including over 100 of the Fortune Global 500. We offer an unbiased combination of smarter processes, analytics and technology through our 60,000+ employees in 24 countries, with key management based in New York City. Behind Genpact’s passion for process and operational excellence is the Lean and Six Sigma heritage of a former General Electric division that has served GE businesses for 15+ years.

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