



GTN: Easy To Say, Not Easy To Do!

Gross-to-Net is not a process, it's a way of doing business.



Years in the making and 25 spreadsheets later, you've got all the data...or do you? As a Life Sciences company trying to best create accuracy and transparency in GTN (Gross-to-Net), you quickly learn that high risk is involved when discovering that a multitude of pricing scenarios is quickly mounting. Attempting to do this in as many as 25 spreadsheets linked together will render erroneous results. But there's more to reaching the cornerstone of GTN than tools and technology.

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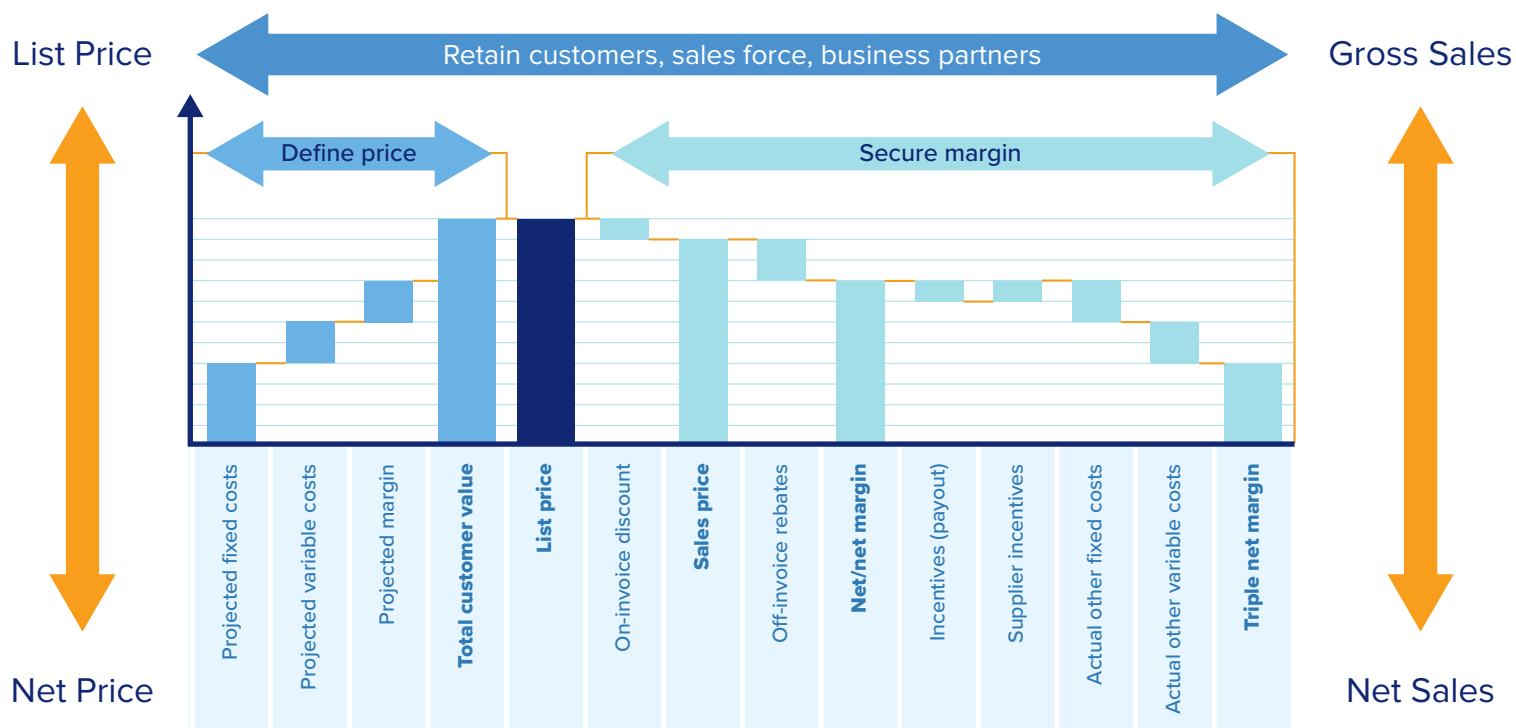


The WHAT and WHY of Gross-to-Net

Let's start with the basics, like defining WHAT we mean by Gross-to-Net. Life Sciences companies apply a mix of direct and indirect discounts, chargebacks, credits, rebates, and other reductions for products. After the close of a period, reconciliations of these discounts, along with other investments such as promotion programs, commissions, distributor fees, returns and more get deducted from

the gross sales. The sum is the GTN, the difference between the gross and net sales.

Your sales and marketing channels are becoming increasingly more complex. As a result, contract terms with customers are more complex. The key to GTN management when used to accrue for discounts and record them is to maintain transparency and accuracy. [Learn more about how ecosystems don't run on spreadsheets and neither should GTN management.](#) 



WHY is Gross-to-Net so important to Life Sciences companies?

One of the reasons there's so much buzz around GTN is the ease it provides for obtaining information as pricing complexities mount. When product financials were reconciled on paper the only people who really cared were the finance people. Now that there's an abundance of available data, methodologies, and solutions that can assist in getting a handle on net profitability, more people want to use it. And there's good reason for the interest as departments realize that GTN management brings better operational control and provides historical context for forecasting. All of this is important to the CFO, marketing, sales, and product development teams as we'll discuss further.

Even with all the advances in GTN reporting and management, it's still one of the leading obstacles Life Sciences companies face today. The continuous challenges of regulatory uncertainty and multiplying pricing strategies propel the buzz throughout the industry. With this comes mounting pressure for exact accruals.

Gross sales	Example
 Mandatory/Statutory Terms	Mandatory/statutory/government pricing
 Market access	Negotiated terms
 Tenders	Tenders, price equalization
 Commercial incentives	Product incentive, listing fee, etc.
 Trade terms	Sell-out activation, customer sponsorship etc.
 Incentives for supply chain players	WSD incentives, GPO incentives, etc.
 Net sales	Net sales



Funny, it worked last time.

GTN is being overused and taken far too literally. Finance people are using GTN to get down to such an exact number (to the penny for many) and as a result, they're getting carried away with the whole concept. Accruals are utilized for many processes as you try to look forward and think of what is going to happen based on historical data and forecasting models. This is all good in practice if you're working strategically. The problem is when you go beyond realistic intent and attempt to run the business off your accruals only.

The key words here are reasonable approximation. When you ignore this strategy and reach for more exact accrual expectations, you most certainly will find yourself frustrated. What worked in the past simply won't work the same today as complexity grows.

The finance world defines accrual as a reasonable approximation of a future event.

By far, the number one tool used by Life Sciences companies to manage GTN is spreadsheets. In fact, approximately 80% of companies still use spreadsheets. Depending on the enormity of discounts and contract complexity, as much as 25 spreadsheets can be linked together that were built over a period instead of rebuilding a single spreadsheet. When you reach this level of complexity, it's time to review your GTN processes and ask, is this really meeting our needs. However, this review process doesn't usually happen until something unfortunate occurs.

Let's add the WHO

People across the company will find Gross-to-Net important. The insight gained is invaluable. People within the company are going to utilize the information from GTN in different ways. There will be broad variants in how different roles view that data. Additionally, what they do to make it look appropriate for them will also vary. That's because each department looks at different pieces.



The CFO is interested in booking the numbers right. Most important are net profitability, accrual management and forecasting net revenues and major product launches.



The contract manager needs both pre- and post-deal analytics and financials. Forecast creation and tracking is also important.



Product management and marketing want to know the product potential and how current products are faring in the marketplace. They are also interested in the product life cycle and analysis.



Sales in broad terms looks at generating the right revenue and maintaining profitability.

For each person, the data needs to add up whether it's for reporting or forecasting.



The complexity and external scrutiny around Gross-to-Net continues to rise. Gross-to-Net is impacted by significant volatility, high risk exposure, and material true-up adjustments.

Source: GTN Pharma

Blaming finance for revenue leakage? Don't blame the messenger.

With so many hands in the cookie jar, you can't completely blame the finance department for your GTN and accrual discrepancies. They'll most likely be the ones to uncover the issues, but the source of each one can come from anywhere in the company.

[Learn more about the importance of achieving a true net price and how it affects your entire business.](#) ☰

If accuracy and transparency are at the cornerstone of GTN, complexity is what can tear it down. Because each department is running their own complicated spreadsheets with discounts, rebates and more, they all are responsible for the risk centered around accuracy. As described earlier, when these spreadsheets get linked together, and there could be many, you're creating volatility that affects accuracy and transparency.

Moreover, expectations are continuously increasing as more Life Sciences companies, both large and small, prepare to bring to market new products in a competitive marketplace. This landscape requires a more targeted strategy that's easily executed and monitored not only for compliance, but for the sustainability of the product. This approach is beyond the capabilities of any one person and the managed spreadsheets.

The devil is in the details

In addition to highly complex pricing a squeeze on margins is making it harder for companies to understand profitability and recognize revenue properly. Having visibility to your net price is key to controlling profitability and revenue recognition. You need to understand all the costs that are part of the product and its revenue in addition to all that is netted from the price.

Does your company have the insight to successfully define and manage this process?

Before you answer this, consider the following...

What are the elements that drive net price? In its simplest form, it is your gross product less all your expenses. But here's the hard part...



What is gross product revenue for your company? Is it list price? Or is it list price plus other inbound revenues such as royalties?



Will it be direct or include indirect? Will it include product cost? If it does include product cost, will it be actual cost or planned/estimated?

The answer to these questions is not simple:

It depends on your role and what you're trying to analyze. For these answers, it goes back to WHO believes this is important. Getting answers to just these questions is like putting a few cookies in the jar and not providing enough for everyone who has a hand in the jar.

To make GTN work for business growth, you need to consider the following...

What are some of the ways you can use GTN functionality to help manage commercial operations?

- Tactically it can be used for contract and bid or tender financials.

- Strategically it can be used at the brand and customer class level.

- Quantitatively, using multi-sales forecasts to develop and analyze different models for future business strategies leading to a smoother exchange of confident forecast input and decision-making.

- Tracking GTN over product life cycle and reviewing it at different reflection points. This is an important function as you launch new products. With luck you will go through a rapid growth period. This might lead to growth-based rebates and incentive offers to enhance growth as you notice sales taper to keep that growth strategy moving. You'll understand what the impacts are by looking at GTN. At later stages you're interested in protecting your market position and price. GTN analysis gives insight on how to approach these different phases.

- Managing full accruals with tracking, general ledger entries and performing accrual true-up against actual expenses. When using GTN scenarios for accrual management, you need to track those accruals versus the real expenses. If they start diverging too much, then you need to perform a true-up to get back in line. Once again, if you go beyond realistic intent on how you manage your true-ups by expecting to get down to the penny, it's going make you a harried finance expert.

It's guaranteed...you're going to have true-ups.

No matter what tools you use or strategy you implement, there's no such thing as perfection.



A closer look will open your eyes.

With the right strategy, you can manage financials, your business, and most importantly, reach the cornerstone of Gross-to-Net accuracy and transparency by automating your approach. There's a plentitude of benefits associated with getting rid of the plethora of linked spreadsheets.

Now more than ever, it's critical to strengthen accuracy and transparency and get every department moving in the same direction to reach this cornerstone. As complexity grows, the latest buzz is on why this is a critical function that all Life Sciences companies need to put into practice ensuring success not only for compliance purposes, but also to ensure your business remains viable in the future.

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