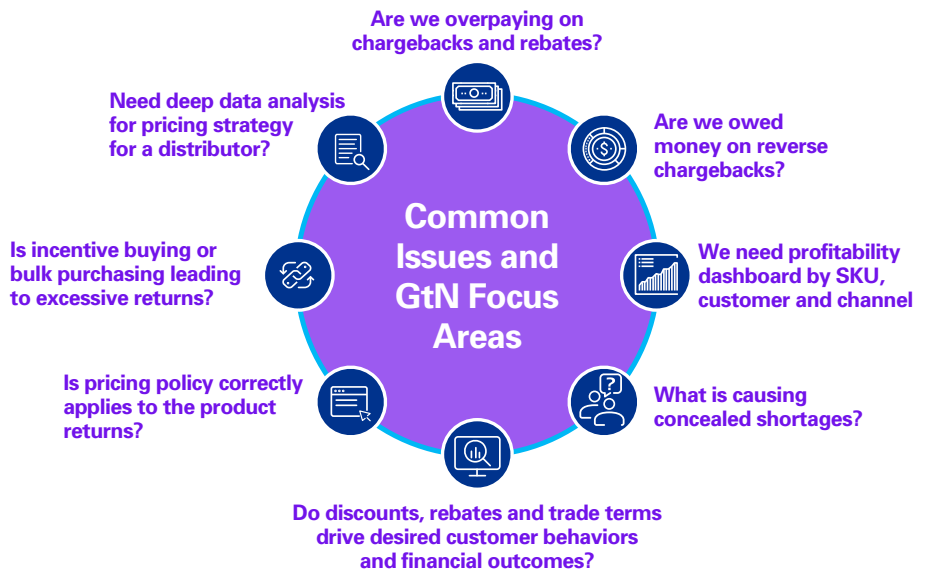![KPMG]

Revenue Leakage

A comprehensive response to create value through systemic revenue leakage prevention for pharma manufacturers

Quick take: Inappropriate and duplicate claims can cost drug manufacturers upward of tens of millions of dollars every year.

Companies have limited capabilities and systems to monitor, review and investigate claims related to variety of programs causing: 1) Reduced gross to net (GtN) margins, 2) Excessive balance sheet reserves and 3) Investment in working capital

Common Issues and GtN Focus Areas

- Are we overpaying on chargebacks and rebates?
- Need deep data analysis for pricing strategy for a distributor?
- Are we owed money on reverse chargebacks?
- We need profitability dashboard by SKU, customer and channel
- Is incentive buying or bulk purchasing leading to excessive returns?
- What is causing concealed shortages?
- Is pricing policy correctly applies to the product returns?
- Do discounts, rebates and trade terms drive desired customer behaviors and financial outcomes?

Get started with rapid analytics to identify where the leakage is happening…

Analytics for revenue leakage typical use cases

Reduce overpayment of rebates

Validate rebates for errors prior to payment:

- Quantity Errors
- Contract Validity
- Duplicate Prescription Records
- Product Bundling

Reduce chargeback discrepancies

Overpayment of chargeback discrepancies due to primary source of inconsistencies:

- Changes in contact terms
- Excessive claims
- Price change delays

Correct contract terms

Analyze contracts by customer and identify the right price and terms were applied to the right products

Control product returns and associated write offs

Prevent and monitor value in returns due to:

- Bulk purchasing/channel stuffing
- Wrong product
- Incorrect price
- Discount errors
- Supply chain obsolescence

Minimize concealed shortages

Enforce claim windows on debit claims and quantity reported discrepancies for trends

Other

- Admin fee for services
- Incentives (coupons, samples)

How KPMG can help

KPMG brings an integrated set of solutions tailored to your needs to prevent revenue leakage and increase margins

Our Value Proposition

Our services provide a comprehensive and unified offering, including:

Strategy – Formulate an effective strategic monitoring program to develop a proper mitigation plan is in place to combat co-pay misuse.

Data & Analytics – Develop custom interactive system solutions using advanced analytics to analyze large amounts of raw data

Accounting – Provide practical insights and recommendations on the accounting and reporting implications of commercial programs and help you establish a more enhanced gross-to-net accrual close process.

Risk and Compliance – Establish strategic governance programs that extends to reviewing internal compliance processes and reviewing manufacturers and co-pay vendors.

Value to You—Reduced Revenue Leakage

Predictive and actionable analytics to automatically scan through signals and patterns in millions of rows of data to identify anomalies

Implement program controls to **decrease the potential for abuse** or misuse of the program and allow more drugs to go to patients in need

Problematic pharmacies proactively identified and blocked from co-pay and coupon programs

Pending **payments stopped** on false claims

Inappropriate paid **claims pursued faster**

Establish a **visualization** that provides insight on potential red flags

Manages all your **GtN data**, contracting, pricing, channel, and patient data together to create greater transparency

Accrual management and forecasting solutions for all size and complexity

Advisory services to provide industry **best-practices and benchmarking**

Experience in Action
KPMG developed a solution to identify pharmacies abusing manufacturer copay and voucher programs

- Developed **a custom solution** for a global pharmaceutical manufacturer to perform monitoring of its copay programs (coupon programs), which monitors approximately 14,000+ pharmacies and ~10,000 claims weekly.

- Created a series of misuse risks to cover **30 unique risk-weighted advanced analytic red flags** to identify high-risk pharmacies.

- Built an **interactive dashboard** to navigate a user from high-risk pharmacies to raw data inputs to assist with manual investigations of activity.

- Created Standard Operating Procedures to **guide investigations** of high-risk pharmacies and escalate to the client's Copay Vendor.

- Identified **5x the amount** improper payments during a two month period than by the Copay Vendor over the same period, including improper payments to fictitious pharmacies and fictitious or inflated claims.

Experience in Action *continued*

Target Solution Activity	Rules Composition	Data Sources	Spotlight Benefits
Fictitious Pharmacies Entities posing as pharmacies but don't purchase product or fill claim	**50 Distinct Rules** **Leverages State-of-the-Art Analytics** Time Series Modeling • Network Analytics • Anomaly Detection	**Transactional** • Coupon claims • Managed care rebate claims • EDI 867 wholesaler data	**125+ pharmacies blocked**
Fictitious Claims Pharmacies that fill legitimate claims but also submit false claims for reimbursement	**Examples include:** • Large increases in claim volume by various dimensions	**Master** • Pharmacy • Physician • Product • Business rules	**>$8M of directly avoided losses** **>$19M of indirectly avoided losses**
Fictitious Amounts Legitimate claims with falsified co-pay requirements to increase benefits	• Similarity analysis between known-bad actors • Anomalous multi-day claim patterns	**Reference** • Internal investigation outputs	**$97.5% of all claims audited for blocked pharmacies identified as fraudulent**
Other Abuses (e.g. collusion)	• Claim vs. purchases discrepancies • Physician/pharmacy trends	• False positive override • Blocked pharmacy list • Physicians of interest	**>$3M recovered funds from blocked pharmacy audits**

Selected examples of our GtN, predictive analytics, and finance transformation engagements

$47B Pharmaceutical Company

Gross-to-Net | **Revenue Leakage**

Focus:

Performed a global GtN assessment to develop a framework to identify revenue leakage

Built a framework based on interpretation of policies and regulations, leading practice methodologies and calculations, and customer data inputs

Implemented the framework in 15 countries and identified .4% in GtN savings

$15B Pharmaceutical Company

Gross-to-Net | **Data Warehouse** | **Process Automation**

Focus:

Designed a gross-to-net process and system solution design for a centralized and automated data repository as a 'single source of the truth'

Assessed and implemented operating model improvements for various accruals including Medicaid and chargebacks

Reduced client's manual processes to limit human error and eliminate the use of spreadsheets

Provided brand teams and business partners with a better understanding of market trends and sales activity

$17B Pharmaceutical Company

Gross-to-Net | **Forecasting**

Focus:

Developed a model to project Medicaid rebate liability capable of iterating rebate calculations and segment accrual rates by product family

Increased accuracy in Medicaid accruals resulting in a lower occurrence of out-of-period adjustments

Provided the ability to forecast segment liability using various approaches (e.g., run rate, payer mix %) and to run a "what-if" analysis

$10B Pharmaceutical Company

Predictive Analytics | **Driver-Based Forecasting** | **Process Automation**

Focus:

Developed a process for simple Excel-based user input of signals and push-button runs of the appropriate models, with output formatted in Excel

Time required to generate future forecasts were significantly reduced, with the added capability for forecasts to now be generated at the "push of a button" once the required data and signals have been collected

Benefits to you

- Identify and prevent financial losses

- Proactive risk identification and remediation

- Limit reliance solely on third party monitoring efforts

- Improve affordability and access of high price prescription drugs

- Customized and built to suit your specific needs with ongoing support and maintenance

- Ability to enhance and evolve the solution to align with current industry trends

Next Steps

Connect with us! Whether you have already identified your goals and challenges, or are interested preparing for the future, we can help you consider your path forward.

About KPMG Healthcare and Life Sciences

KPMG LLP is one of the largest providers of professional services –advisory, audit and tax –to healthcare and life sciences industry globally with more than 4,200 dedicated industry-specific partners and professionals. Our deep knowledge base, as well as our extensive experience helping clients move from strategy through to execution to value creation, positions us to take on the role of a trusted adviser. Further, KPMG has a proprietary set of tools and methodologies to deliver data-driven insights.

We understand the regulatory, commercial, operational, and accounting complexities unique to the industry and provide a client-centric, integrated suite of services across deal lifecycle to assist our clients in achieving strategic and business results.

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