2021
STATE OF REVENUE

A SURVEY OF C-SUITE EXECUTIVES

Model N

Proprietary research conducted through a partnership with **Dimensional Research**

Model N

Introduction

Every C-suite executive is tasked with contributing to their company's revenue growth. Success requires effective revenue management, which is defined as optimizing revenue activities – across sales, marketing, finance, IT, and operations – to maximize growth.

Modern technology and innovative business models have dramatically increased opportunities to improve business outcomes. Using technology at scale to effectively execute rebates, contracts, pricing models, compliance, and other key revenue activities has proven to generate impressive impacts on profitability. Yet revenue management challenges still remain, especially for life sciences and high tech companies.

Highly regulated pharmaceutical and medical technology manufacturers often struggle with managing pricing and discounts across multiple markets, while ensuring they comply with government requirements.

Semiconductor, electronic component manufacturers (ECMs), and high-tech manufacturing companies face a highly competitive global environment that requires effective management of complex channel and incentive models.

To better understand the realities of modern revenue management within the life sciences and high tech industries, the 2021 State of Revenue Report endeavors to answer three important questions:

- How are executives dealing with revenue management?
- What are their key issues and challenges?
- Where do they see opportunities for improvement?

This report, sponsored by Model N with research conducted by Dimensional Research, is based on the results of an online survey of 300 C-level executives who are directly responsible for revenue management at large pharmaceutical, medical technology, semiconductor/ECM, or high-tech manufacturing companies. Certain questions were repeated from a similar 2020 study to enable trend analysis.

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revenue management

*rev·e·nue | \ re-vəˌnü *
*man·age·ment | \ ˈma-nij-mənt *

Refers to the optimization of revenue activities to maximize growth. Activities include, but are not limited to, rebates, compliance, contracts, and price modeling, and cross multiple functional areas such as sales, marketing, finance, IT and operations.

KEY FINDING 1

Revenue management is critical

93%

of executives believe revenue management is **business critical.**

68%

cited an **increase in revenue management moments** in 2020, with that growth driven primarily by technology that enables more granular execution.

COVID-19

is the biggest factor impacting revenue management today.

Price management

tops the list of challenges reported with revenue management.

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DETAILED FINDINGS

Revenue management is critical

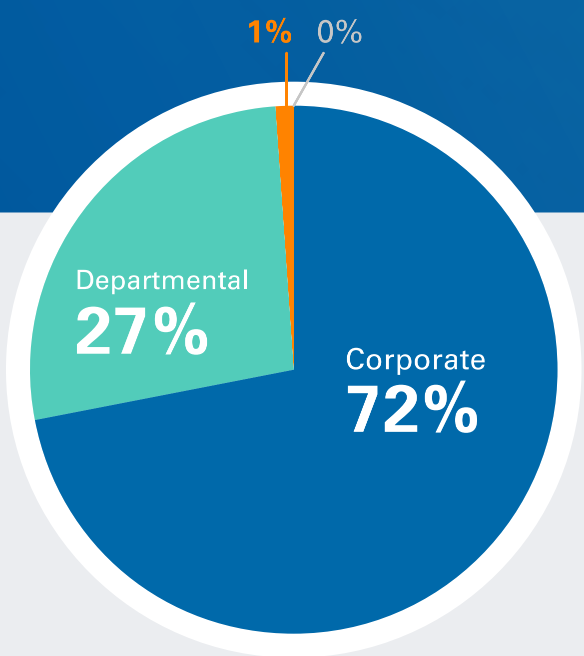
Revenue management is a business-critical corporate function

This study defined "revenue management" as optimizing revenue activities, such as rebates, contracts, pricing models, and compliance, to maximize growth. C-level executives agree that revenue management matters: More than 9 in 10 (93%) characterize revenue management as "business critical."

93%

of C-level executives agree that revenue management is "business critical."

Revenue management is a priority for life sciences and high tech companies. Almost all (99%) have a dedicated revenue management initiative, and for 72%, this is a corporate initiative that receives company-wide attention.



How big of a priority is revenue management for your company? *Choose the one answer that most closely applies.*

- Corporate initiative
- Departmental initiative
- We don't have a revenue management initiative
- We don't do revenue management

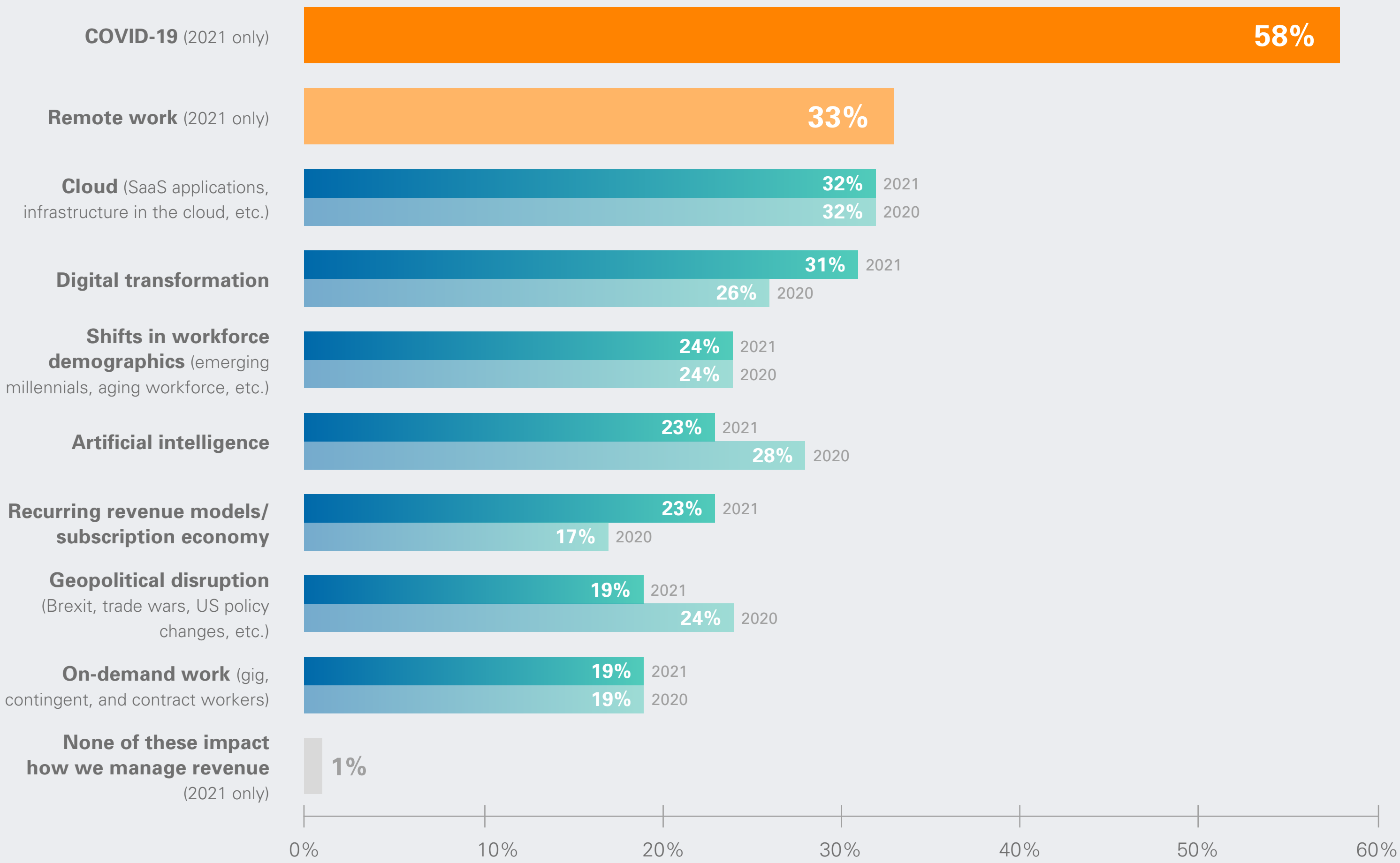
COVID-19 had an outsized impact on revenue management

It is almost impossible to overstate the impact COVID-19 has had on every aspect of life in the past year. Some pharmaceutical companies were directly impacted by the rush to develop and deliver an effective vaccine, while all companies dealt with new work-from-home policies, supply chain and logistics issues caused by closed borders, and changing customer demand profiles.

Revenue management did not escape the effect of COVID-19. C-level executives indicated that it had the biggest impact on the way their companies manage revenue (58%). Furthermore, remote work, an existing trend that was significantly accelerated by COVID-19, was a top factor impacting revenue management for a third (33%) of life sciences and high tech companies.

Just behind COVID-19 factors, technology trends, including cloud adoption (32%) and digital transformation (31%), also had a substantial effect on revenue management.

Which of the following are having the biggest impact on how your company manages revenue? *Choose up to 3.*



Technology investments increase opportunities for revenue management moments

When it comes to optimizing revenue, every decision, transaction, and process can be meaningful. Each choice may be small on its own, but the combined impact of thousands or millions of moments can have a significant impact on profitability, market share, and revenue.

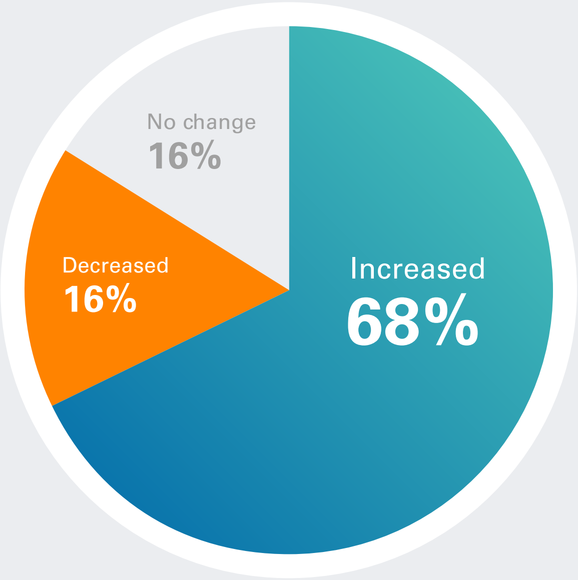
Survey respondents were asked to think of all the "revenue management opportunity moments" that occur in their organizations. To clarify the vocabulary, the following examples were provided:

- Setting and updating pricing strategies
- Generating and updating quotes
- Discounting
- Creating, editing, and managing contracts
- Managing and processing rebates and incentives

Since businesses are more globally and digitally connected and modern analytics provide information that enables nuanced decision-making, it is not surprising that executives report more revenue management moments. More than two-thirds (68%) reported an increase of moments that created opportunities for revenue management in the past year. The increase in revenue moments was even more prevalent (82%) among companies with $5 billion or more in annual revenue.

68%

of respondents reported increased revenue management opportunity moments in 2020.

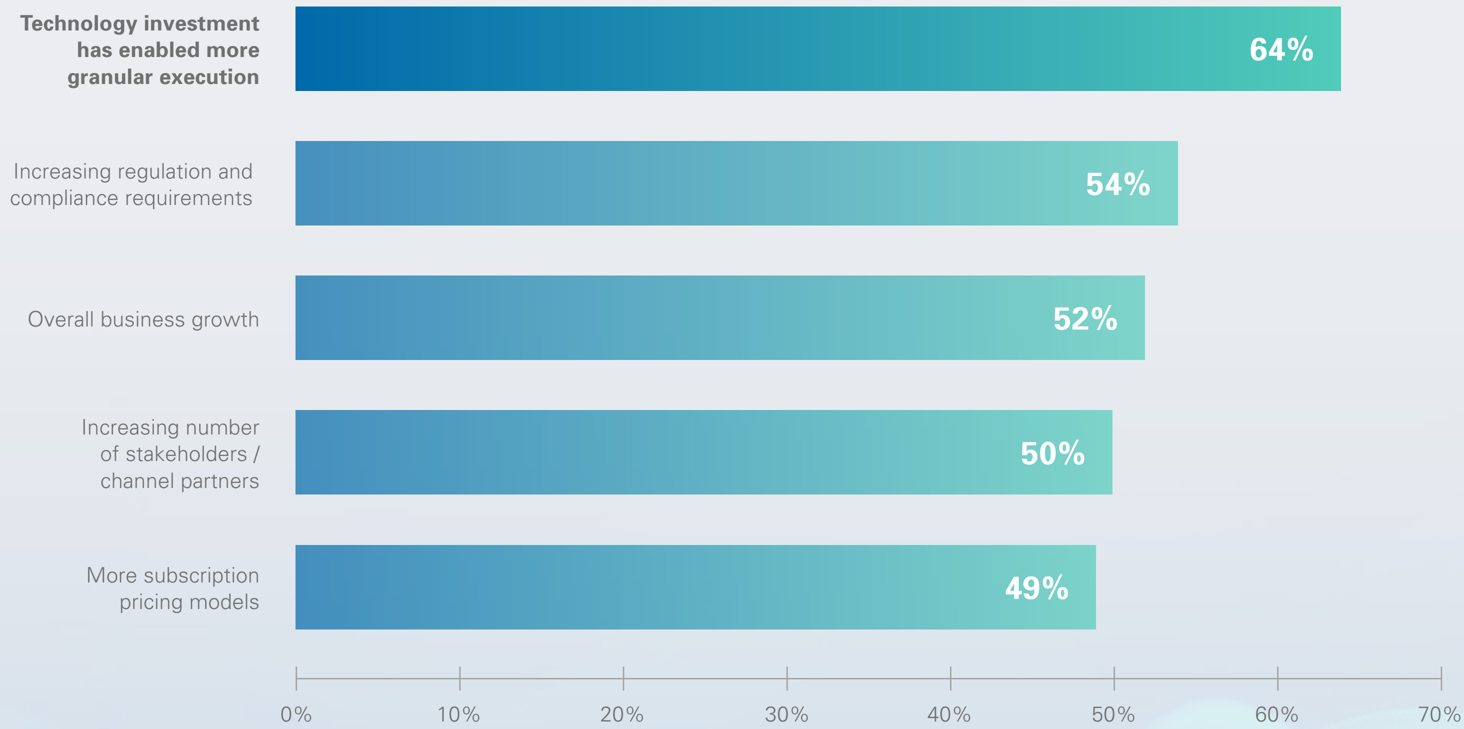


Think of all the revenue management opportunity moments that occur in your organization. How has the number of these moments changed in the past year?

Multiple trends are driving the increase in revenue management opportunity moments. Typical business growth is certainly a factor, reported by just over half (52%). However, the top reason for the increase, as reported by 64% of executives, is that technology enables more granular execution of revenue management tasks. Other growth drivers include increasing regulation and compliance requirements (54%), more stakeholders and partners (50%), and subscription pricing models (49%).

Technology investments enable more granular execution, resulting in more revenue management moments.

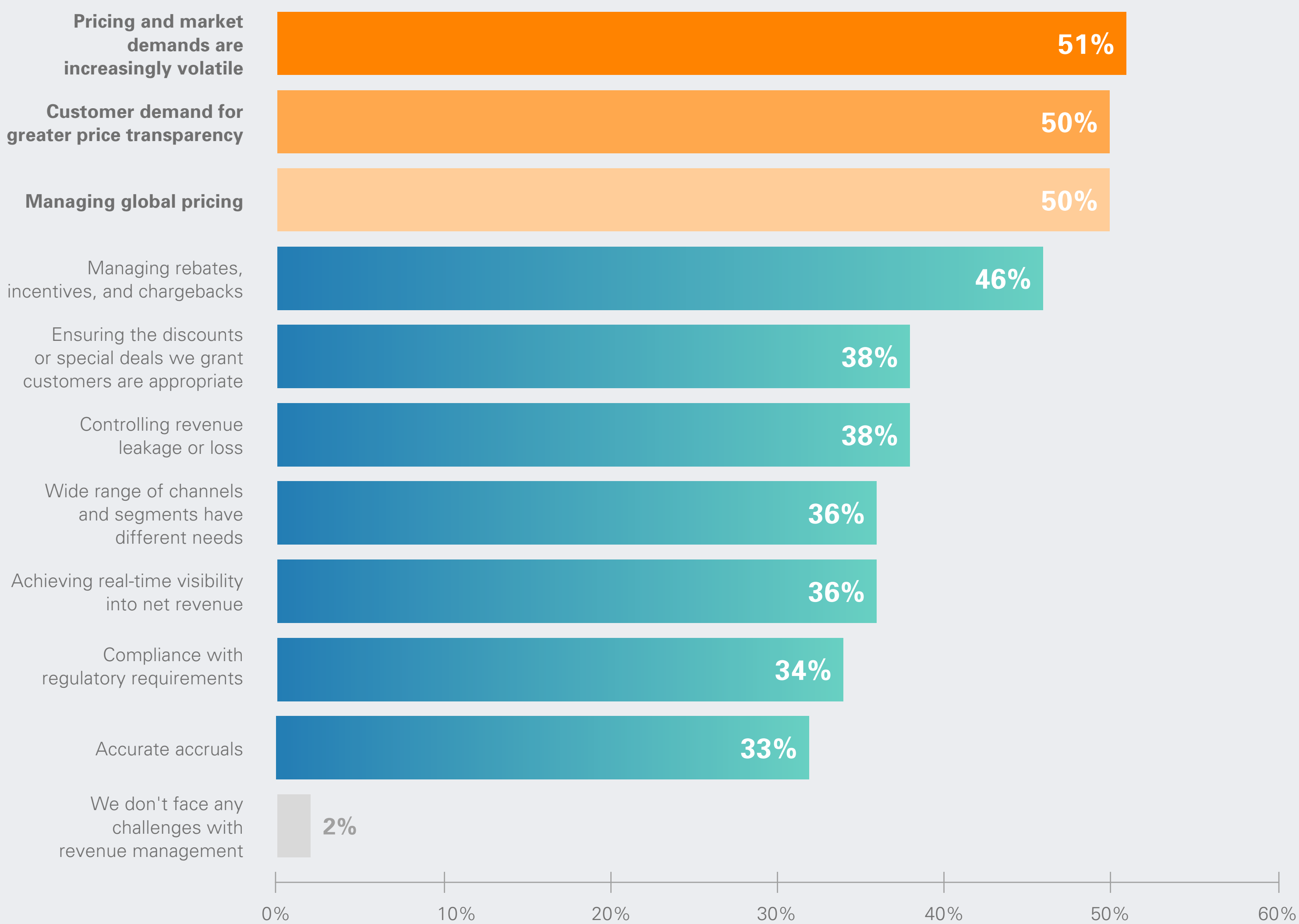
What is causing this increase in the number of revenue management moments? *Choose all that apply.*



Pricing is the number-one revenue management challenge

C-suite executives admit that their teams face a wide range of challenges in their attempts to effectively manage revenue, but pricing-related challenges top the list. At least half of the executives in our study reported having issues with some element of pricing, including increasingly volatile pricing and market demands (51%), customer demand for greater price transparency (50%), and global pricing management (50%).

What challenges does your organization face with revenue management?
Choose all that apply.



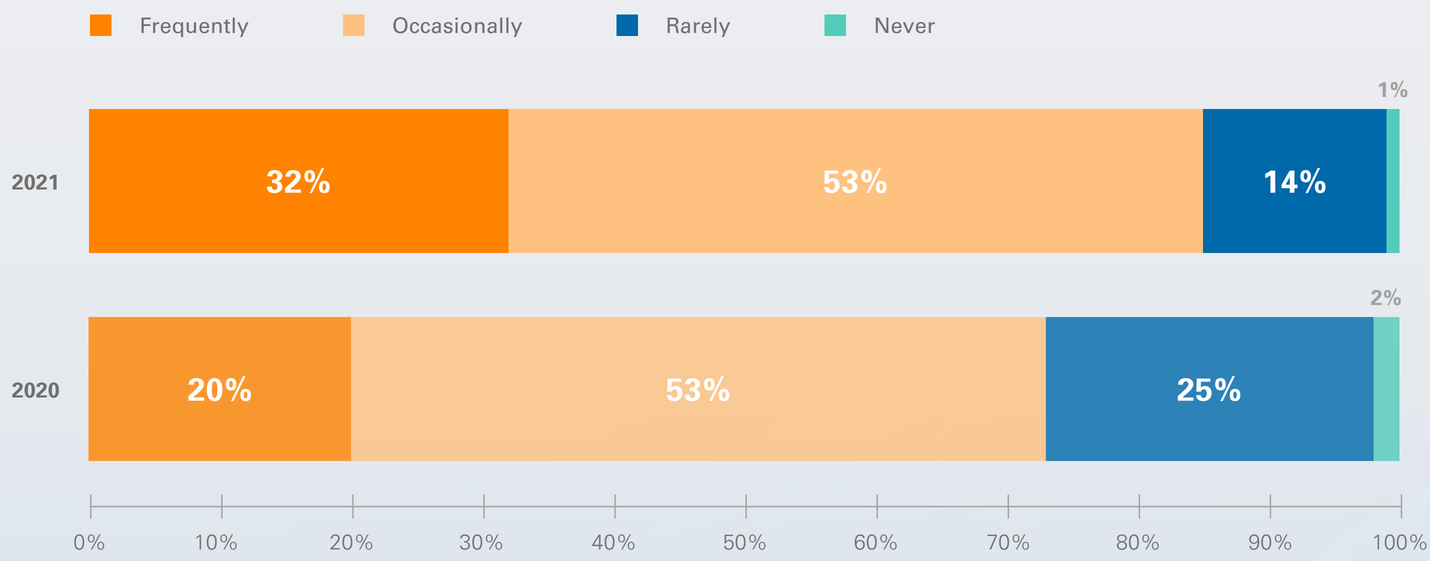
Issues with pricing are particularly problematic when confusion leaks through to the customer. It is embarrassing when customers receive different pricing from various departments, regions, or channels. Even worse, these variations can have a direct impact on revenue, as customers will demand the lowest price they are given.

Unfortunately, this problem has gotten worse. In 2020, a worrisome 20% of executives indicated their customers were frequently exposed to conflicting pricing. That number spiked to 32% in 2021 – a 60% increase.

60% increase

in reports that customers were frequently exposed to conflicting pricing.

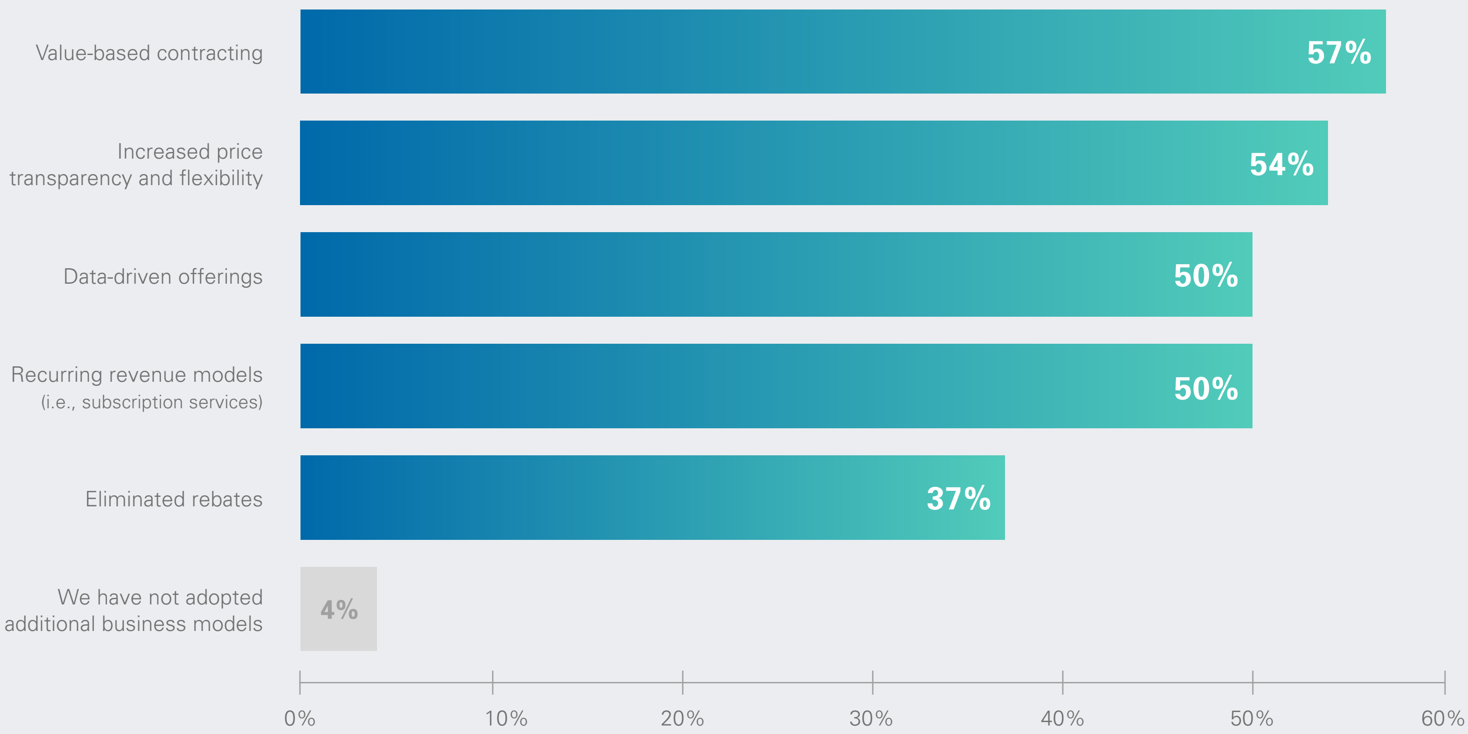
To the best of your knowledge, how frequently are your customers exposed to conflicting pricing *(i.e., different pricing for different departments, regions, or from different channels)**?***



New business models impact revenue management practices

As companies turn to new business models to gain a competitive edge in the marketplace, they must evolve their revenue management practices to keep pace with the changes. For example, shifting from unit-based pricing to subscription-based pricing requires a company to adjust how it writes contracts, engages with customers, and recognizes revenue, among other considerations. Life sciences and high tech companies must invest in expanding their capabilities since the majority of executives (96%) report that their companies have adopted new business models – including value-based contracting, increased price transparency and flexibility, and subscription services – in the past two years.

Has your company adopted any additional business models in the past two years? *Choose all that apply.*



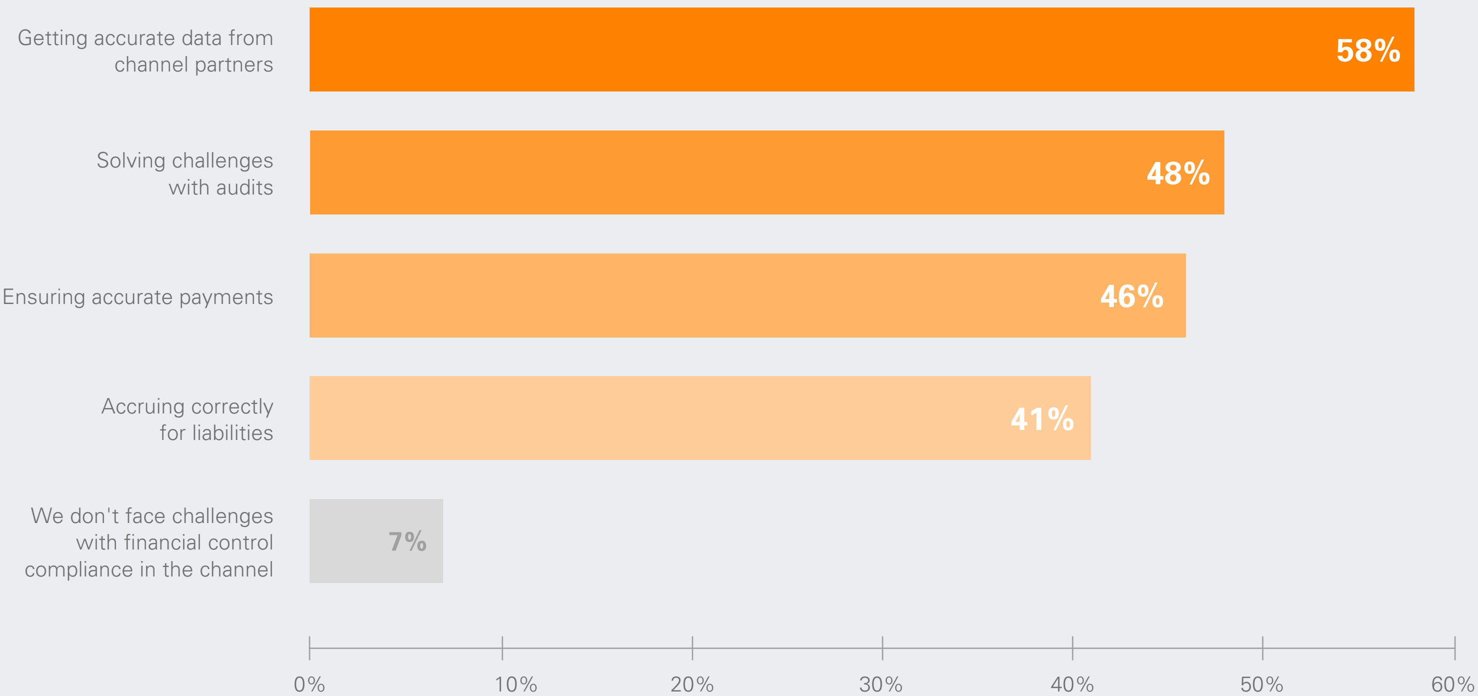
Revenue management and the channel

A special report for semiconductor, ECM, and high-tech manufacturing companies

Through channel partners, semiconductor, ECM, and high-tech manufacturing companies gain crucial access to customers and markets, giving them the capabilities to scale their business. Often these channel relationships number into the thousands, making revenue management tremendously complex. Companies must ensure their pricing, discounting, and rebating decisions are fair and equitable across their channel partner ecosystem.

Financial control in the channel is challenging for 93% of high tech companies. Executives reported issues with their channels' financial control compliance, including getting accurate data from channel partners (58%), solving challenges with audits (48%), ensuring payments are accurate (46%), and accruing correctly for liabilities (41%).

What challenges does your business face with financial control compliance in the channel? *Choose all that apply.*



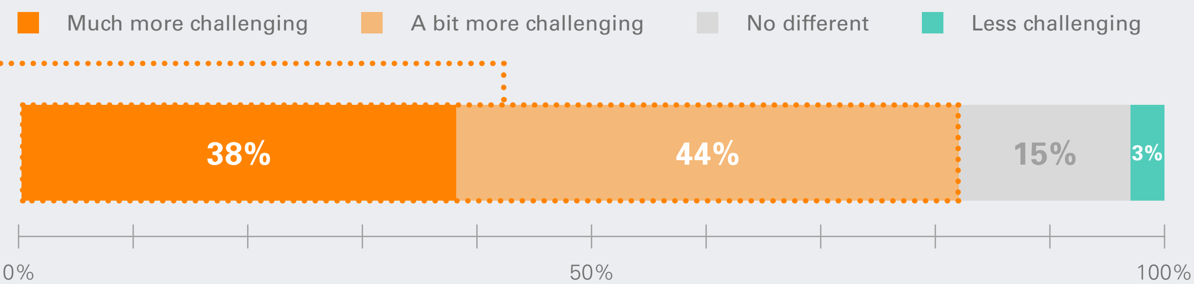
A special report for semiconductor, ECM, and high-tech manufacturing companies

While financial controls always cause challenges, 82% of semiconductor, ECM, and high tech executives agree that channel-related financial compliance is more difficult than other types of financial controls.

How difficult is financial control compliance in your channel business compared to other financial controls? *Choose the one answer that most closely applies.*

82%

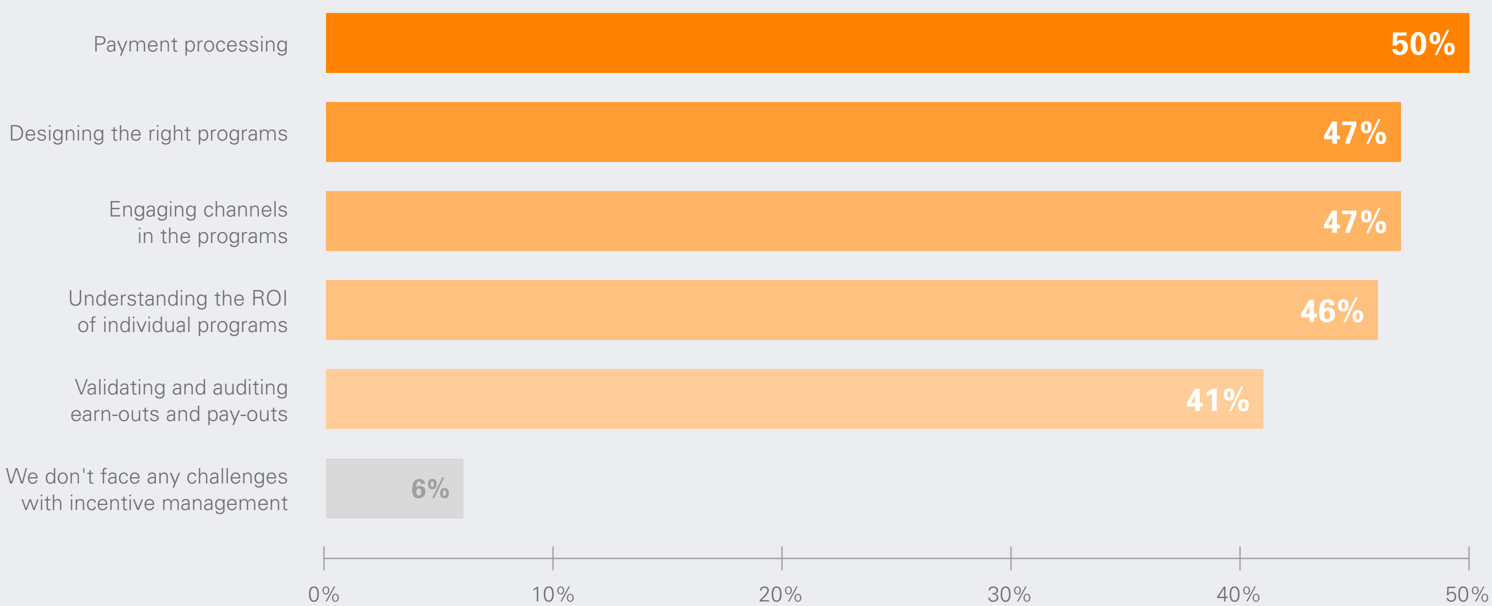
find financial control compliance challenging in their channel business.



To drive sales and strengthen channel relationships, high tech companies are introducing more sophisticated incentive programs. If these programs are not implemented and managed correctly, they can negatively impact channel performance.

Incentive management has proven to be a challenge for many organizations. Almost all (94%) executives report issues with their incentive programs including payment processing (50%), designing effective programs (47%), engaging the channel (47%), evaluating ROI (46%), and validating and auditing earn-outs and pay-outs (41%).

What challenges does your company face with incentive management? *Choose all that apply.*



KEY FINDING 2

Compliance and regulation are key concerns for 2021

91%

are concerned that **governmental regulations** will have a bigger impact in 2021 than usual.

98%

are **preparing their revenue management programs** for governmental changes in 2021.

57%

characterize themselves as **"very concerned" about the impact of additional compliance regulations,** up notably 73% from a year ago.

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DETAILED FINDINGS

Compliance and regulation are key concerns for 2021

Regulation will be a focus for 2021

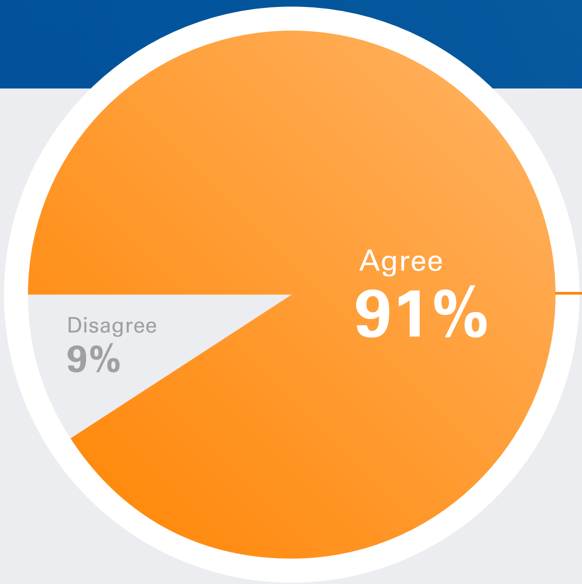
Almost all (99%) organizations represented in this study deal with regulation, including 16% that characterized themselves as "slightly regulated" and 83% that indicated they were "highly regulated."

Anytime an administration changes, shifts in regulatory focus are expected. Rules proposed in recent years have roughly a 50-50 chance of being implemented.

More than 9 in 10 C-level executives at life sciences or high tech companies are even more concerned about the potential impact of governmental regulations in 2021 than they usually are.

+9/10

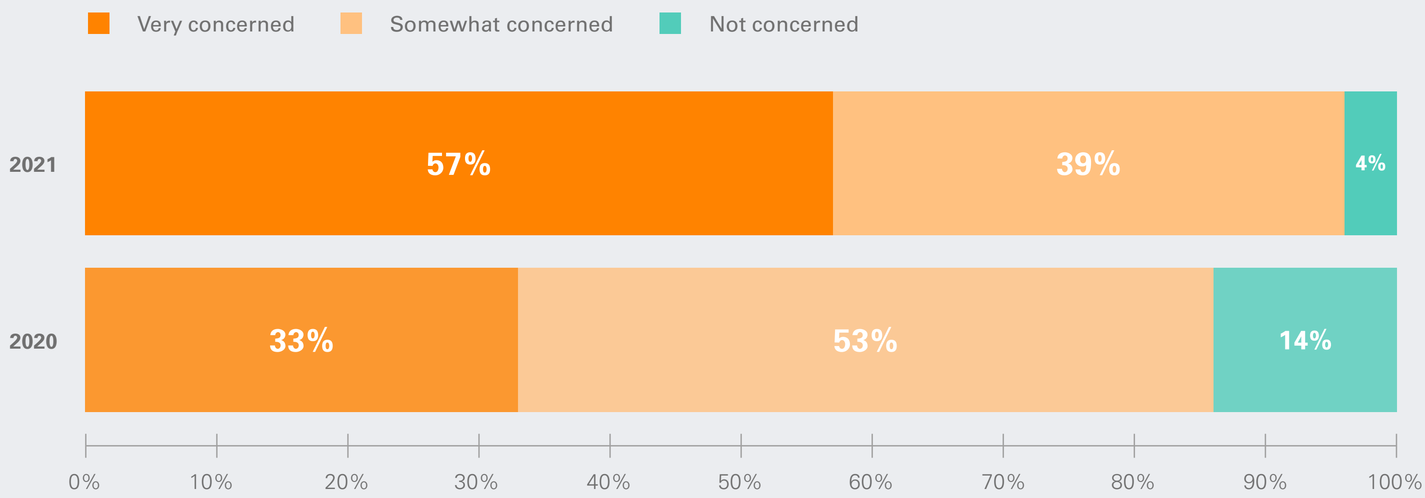
of C-level executives are more concerned about possible governmental regulations than usual.



"We are concerned that government regulations will have bigger impact in 2021 than usual."

This 2021-specific level of regulatory concern is also seen in the dramatic increase in the number of executives who reported they are worried that additional compliance regulations could impact their revenue. When this question was asked in 2020, only 33% characterized themselves as "very concerned." In 2021, the answer to this same question jumped to 57% of executives being "very concerned" about the impact of regulations on future revenues – a 73% increase.

How concerned are you that new or additional compliance regulations could impact future revenues?



Pharmaceutical companies face perhaps the highest level of uncertainty regarding rules published during the Trump administration that could significantly impact pricing and rebate processes. Only 13% of pharmaceutical executives believe the Biden administration will not implement any of the proposed rules, but they are not confident about which ones will move forward.

Do you expect the Biden administration to implement any rules published during the Trump administration in their current or similar form?

64%
Final rule on value-based purchasing, patient assistance, and line extensions

47%
Most favored nations for Part B pricing

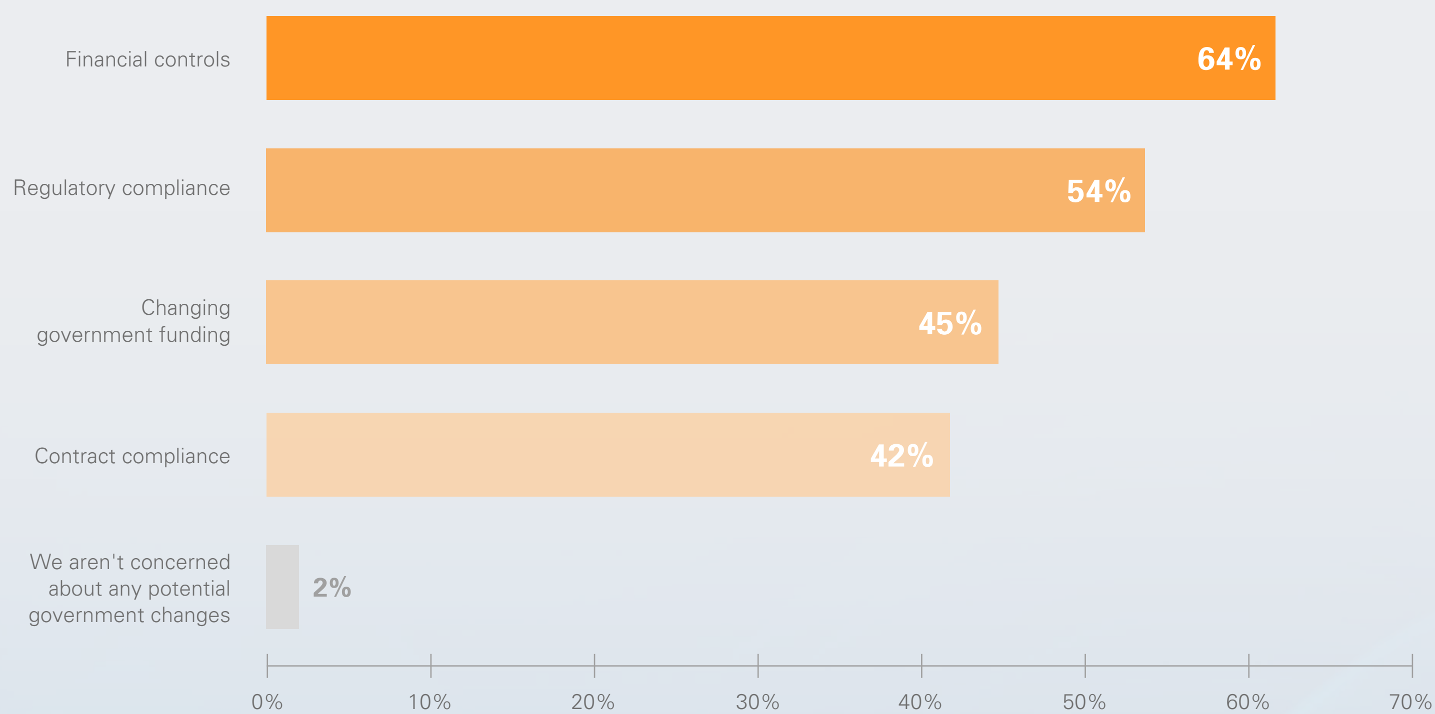
45%
Safe Harbor changes for Part D rebates

13%
No Trump rules will be implemented

Revenue stakeholders are preparing for wide-ranging governmental changes

Executives at life sciences and high tech companies are being proactive and taking steps to adjust their revenue management programs. Almost all (98%) report that they are making plans to respond to potential changes around financial controls (62%), regulatory compliance (54%), changing government funding (45%), and contract compliance (42%).

What governmental changes in 2021 is your company currently concerned about and preparing for as part of your revenue management program? *Choose all that apply.*

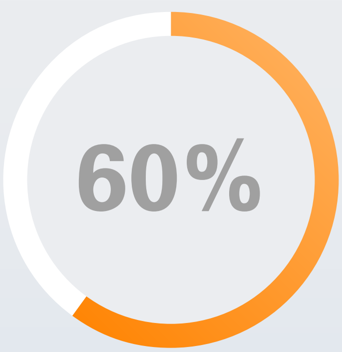


Regulation, pricing, and life sciences

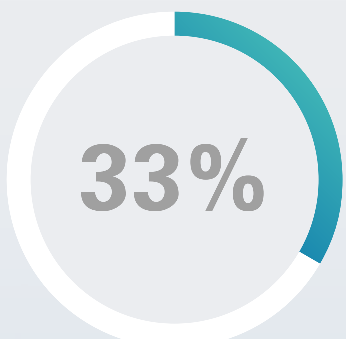
A special report for pharmaceutical and medical technology companies

With 95% of the life sciences companies in the study reporting that they are "highly regulated," it is to be expected that governmental oversight is a key area of focus for pharmaceutical and medical technology companies. Life sciences organizations reported that they are planning for additional governmental factors, including 60% that are concerned about new healthcare policies and 33% that are preparing for changes from a new secretary of Health and Human Services (HHS).

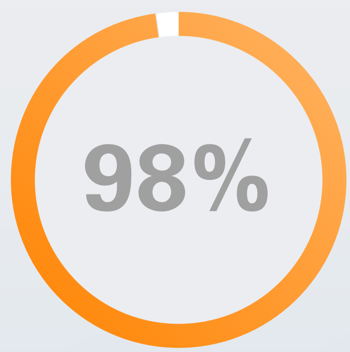
Regulatory changes are particularly concerning for life sciences companies since governmental policies are consistently associated with lost revenue. Almost all life sciences companies (98%) report that they experience revenue loss as a direct result of regulatory compliance.



Are concerned about **new healthcare policies**



Are **preparing for changes** from a new head of HHS



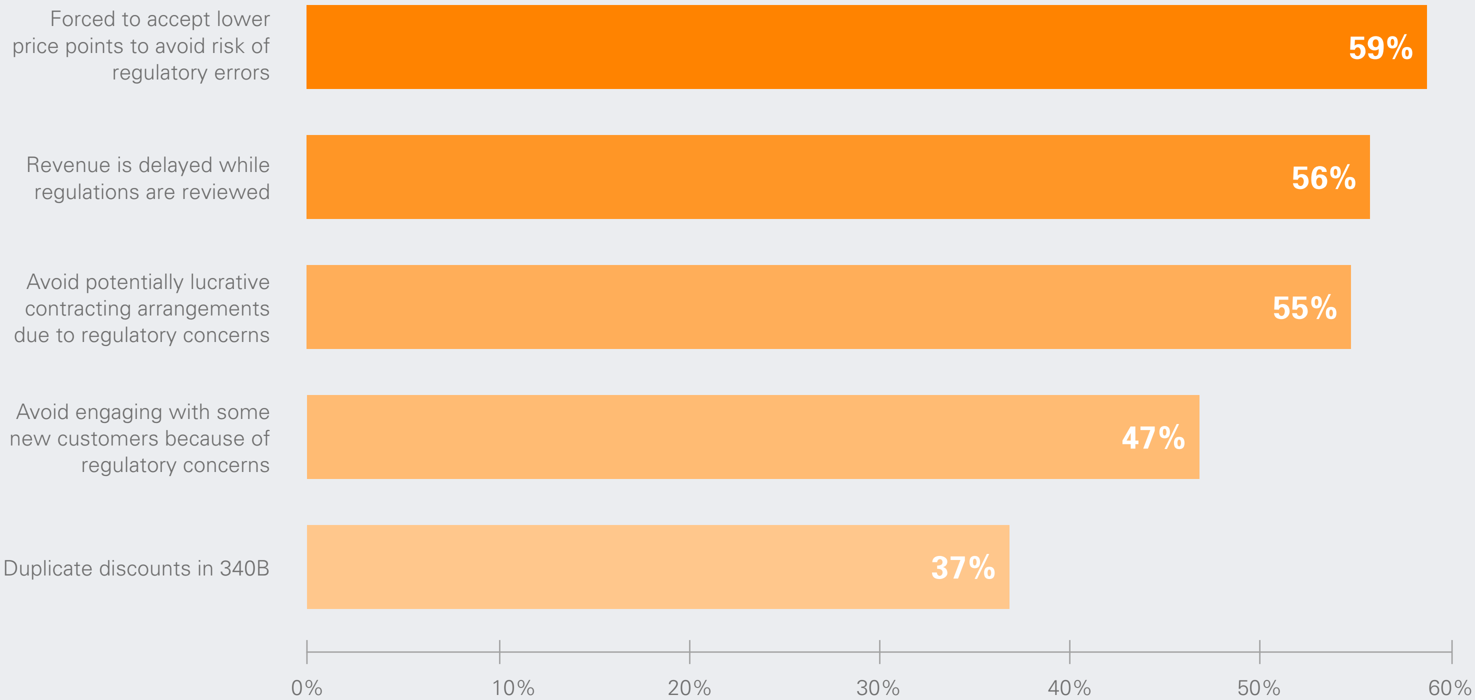
Experience **revenue loss** because of regulatory compliance

A special report for pharmaceutical and medical technology companies

This revenue loss occurs in a variety of ways. Life sciences companies are frequently forced to accept lower price points to avoid risk of regulatory errors (59%), delay revenue while regulations are reviewed (56%), and avoid engaging on potentially lucrative contracting arrangements due to regulatory concerns (55%). They may even refuse to engage with new customers because of regulatory concerns (47%).

Regulation can impact other areas of revenue management for life sciences companies, as well. For example, pricing can be a particularly difficult task in an environment with a changing regulatory landscape. Executives at life sciences companies reported challenges with managing global pricing (51%); dealing with volatile pricing (51%); dealing with customer demand for price transparency (51%); and managing rebates, incentives, and chargebacks (52%). A third (32%) of life sciences executives reported that their customers frequently see conflicting pricing and well over half (57%) reported this happens occasionally.

In what ways does your company experience revenue loss as a result of regulatory compliance? *Choose all that apply.*



KEY FINDING 3

Executives know they can do a better job at revenue management

71%

believe **their industry could do a better job** with revenue management.

100%

report that new revenue management capabilities would have **direct business benefits.**

74%

are leveraging artificial intelligence and machine learning to enable revenue management.

92%

prefer cloud-based revenue management solutions from a vendor with deep sector expertise.

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DETAILED FINDINGS

Executives know they can do a better job at revenue management

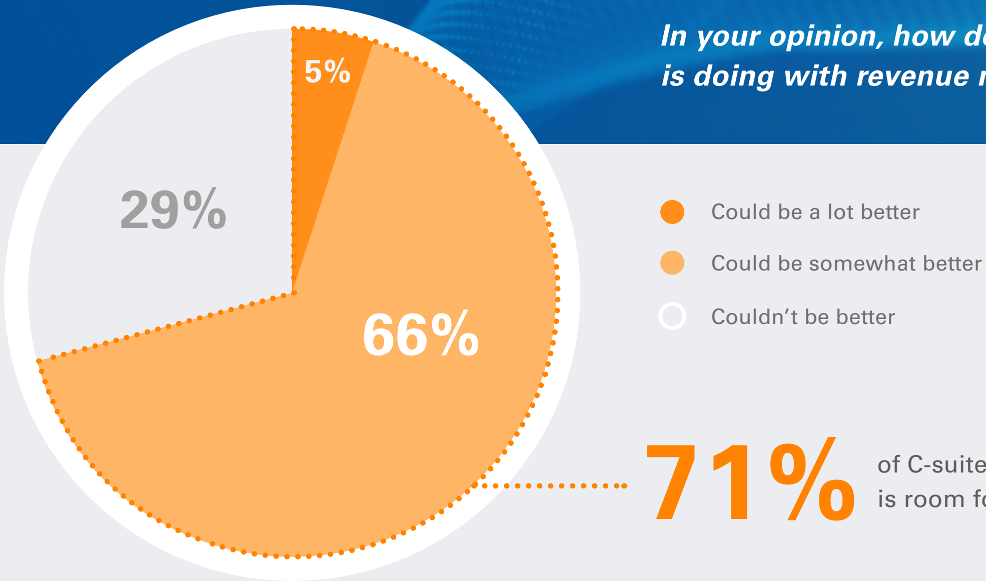
Better revenue management is an industry-wide opportunity

While much of this study asked executives to report on the situation at their own companies, we also wanted to understand opinions across industries. The answer was clear: They can do better. About 71% of C-suite executives reported that there was room to improve. This finding was consistent across industries:

In life sciences, **80% of medical technology** executives and **69% of pharmaceutical** executives reported their industry could do better with revenue management.

The high tech sector is similar with **80% of high-tech** manufacturing companies indicating their industry could improve, and **56% of semiconductor or ECM** companies reporting the same.

In your opinion, how do you think your INDUSTRY is doing with revenue management?



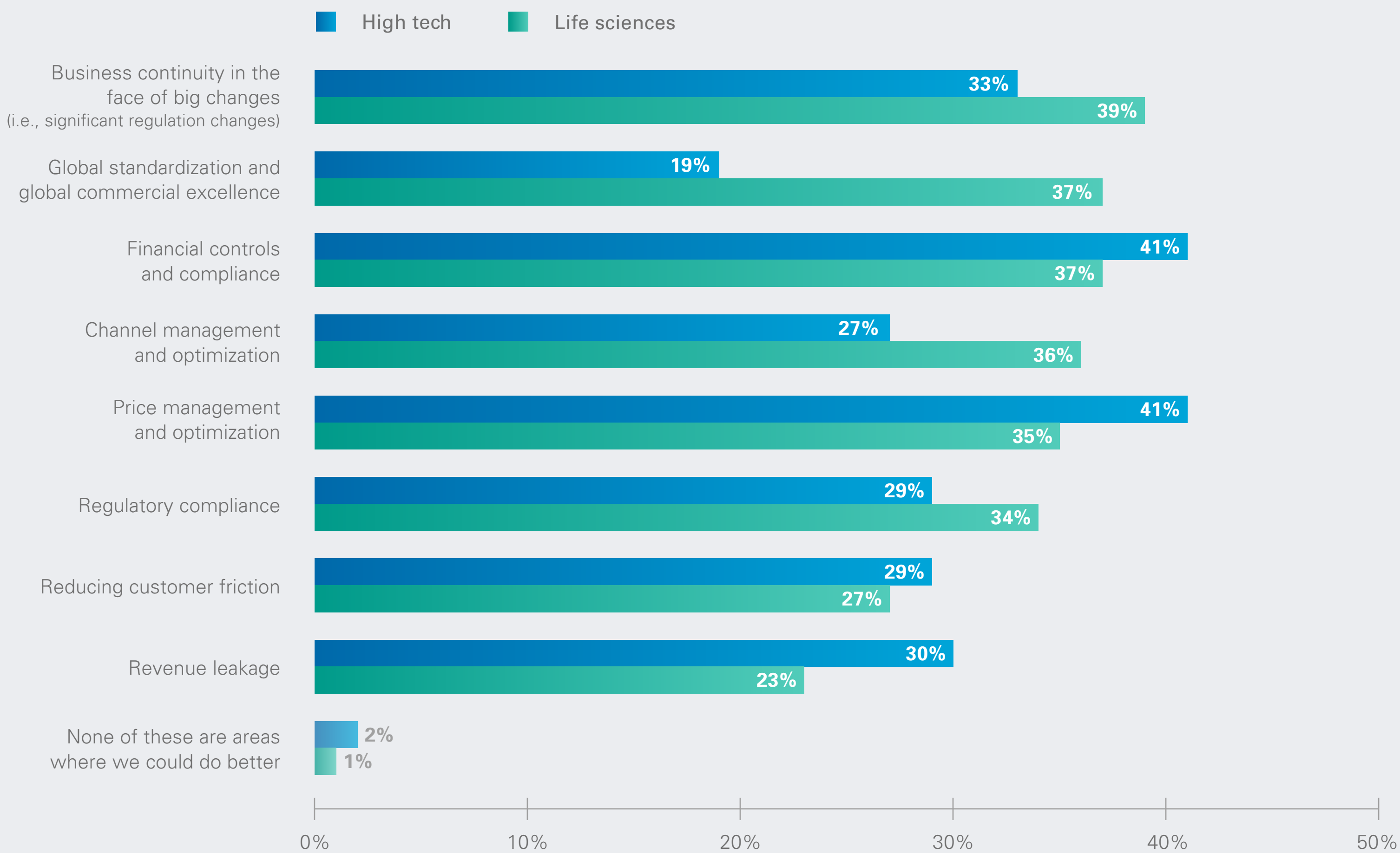
71% of C-suite executives reported that there is room for improvement in the industry.

The C-suite sees multiple areas for improving their own operations

Executives are as critical of their own operations as they are their overall industries. When asked about areas that could impact their own company's business results if they were managed more effectively, 99% of executives are able to identify functions where better reporting or improved processes could make a difference. Respondents were asked to prioritize the top three areas. Most selected all three choices permitted – a clear indication that they see multiple areas for improvement.

Interestingly, executives in life sciences and high tech do not consistently identify just one area that could have the most impact, and the specific answers were unique to the company's operations. But it's clear that by more effectively managing revenue activities, companies could have a significant impact on overall business results that extends far beyond reducing revenue leakage. In fact, many challenges that executives identified earlier – including pricing management, business continuity in the wake of regulatory and other changes, and financial controls and compliance – could all be improved through better revenue management.

What areas of revenue management would have the greatest impact on your company's overall business results if they could be managed more effectively (better reporting, improved processes, etc.)? *Choose up to 3 of the following.*



Executives look to innovative technologies to enable better revenue management

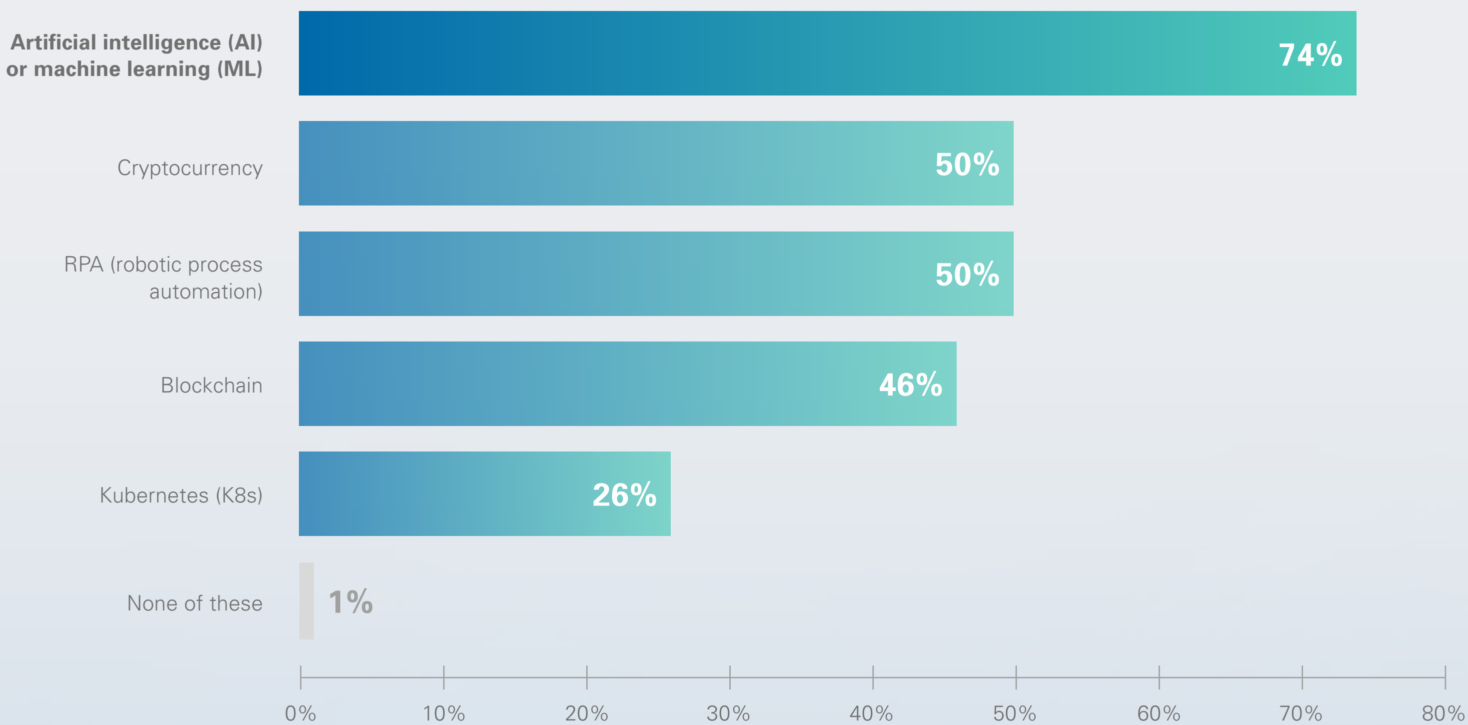
Some of the most exciting recent innovations in technology are directly applicable to revenue management. Life sciences and high tech companies have recognized this and are looking to these innovations to help address their revenue management needs.

Three-quarters (74%) are using or planning to use artificial intelligence or machine learning. Half are using or considering options for cryptocurrency or robotic process automation (RPA). Close to half (46%) are doing the same with blockchain, while a quarter (26%) are looking to Kubernetes (K8s) and container orchestration.

74%

of respondents plan to use AI or ML technology to enable revenue management.

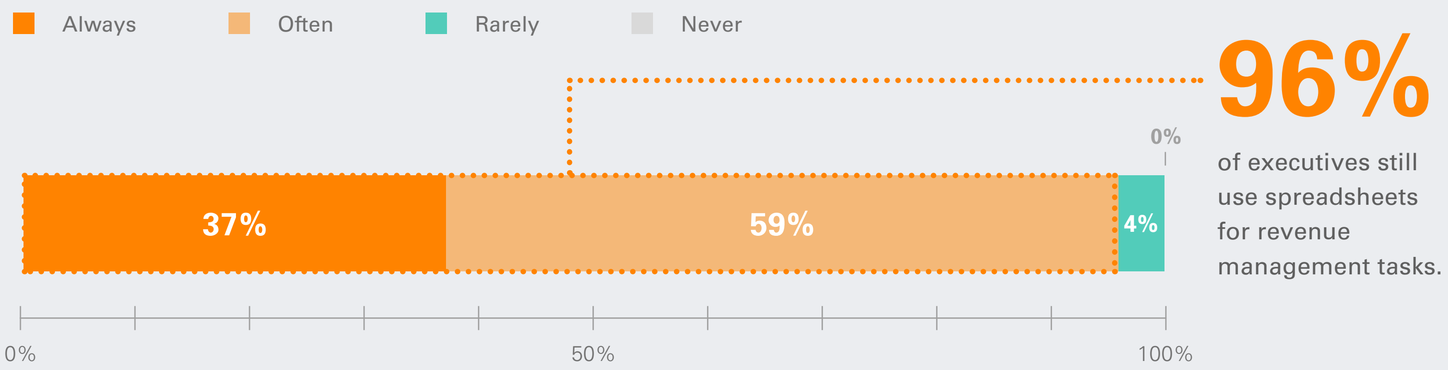
Does your company currently use, or have plans to use, any of the following technologies to enable revenue management? *Choose all that apply.*



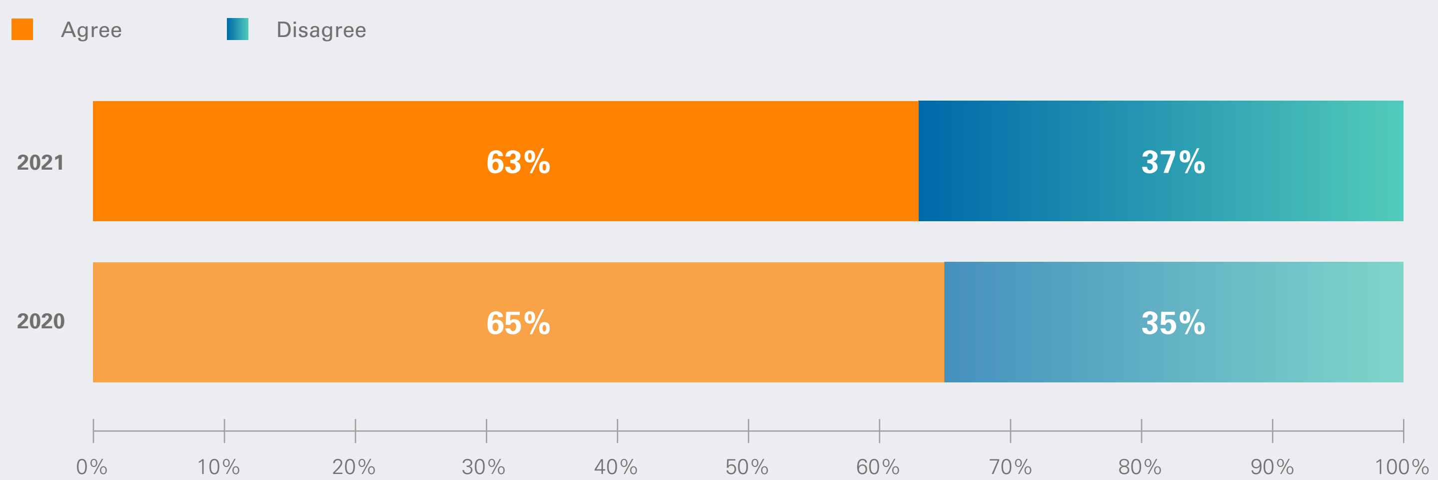
One challenge with leveraging revenue management technology is ingrained legacy systems and processes. A surprising 96% of executives report that they still use spreadsheets for revenue management tasks "always" or "often." Executives see this is a problem, with 75% agreeing that their organization is too reliant on spreadsheets for their revenue management efforts. Heavy reliance on spreadsheets could impact revenue accuracy, as spreadsheets are often difficult to maintain and share across departments, create multiple versions of the truth, and are susceptible to errors.

In the 2020 State of Revenue Report, it was unnerving to discover that despite recent advances in technology, particularly around data and analytics, 65% of executives were actually less confident in the accuracy of their revenue reports. This situation has not improved noticeably in this past year, with a similar number (63%) reporting the same lack of confidence in revenue reports as in 2020.

How extensively does your team use spreadsheets for revenue management tasks?
Choose the one answer that most closely applies.



"I am less certain about the accuracy of our revenue reports now than I was five years ago."



Additional revenue management capabilities are expected to directly benefit the business

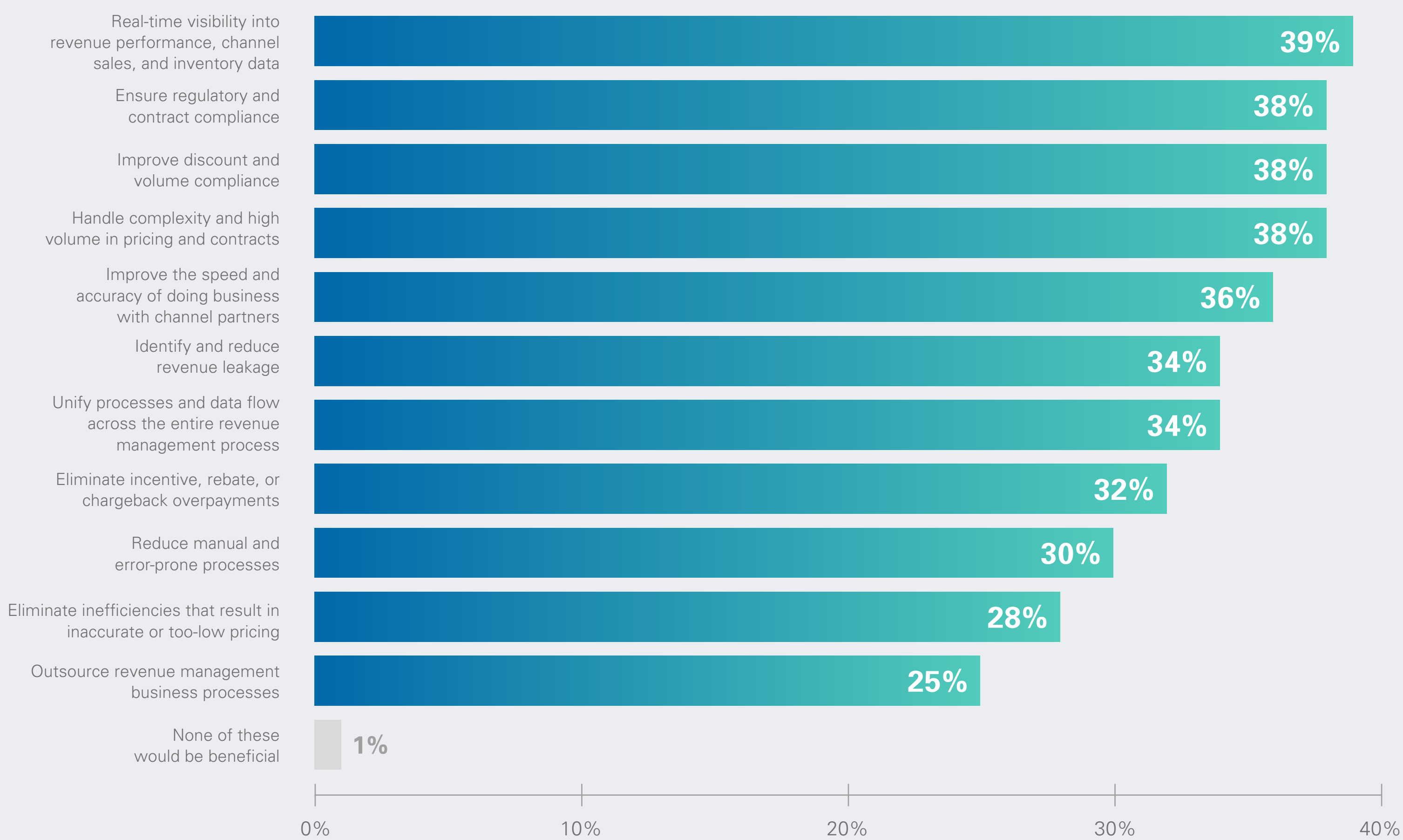
To better optimize revenue activities, companies need to implement processes that enable them to accurately capture and analyze data, automate error-prone tasks, improve visibility across the organization, and access information in real time. These are areas in which technology can help.

C-level executives are aware of technology's potential for improving revenue management efforts. Almost all (99%) can identify specific capabilities that would benefit the needs of their organizations, with real-time visibility into revenue performance, channel sales, and inventory data topping the list (39%). Other benefits that followed close behind include assurance of regulatory and contract compliance (38%), improved discount and volume compliance (38%), and better handling of complex and high-volume pricing and contracts (38%).

99%

of executives agree that technology can enable improved revenue management for their organizations.

Which of the following technical capabilities for revenue management would be beneficial to your organization? *Choose all that apply.*



The value of a technology investment is linked to the potential business outcomes that can result if the technology is adopted. To understand the impact of revenue management technology, executives were asked to tie expected business outcomes to specific technical capabilities.

All executives indicated they saw potential for direct business benefit. This included an increase in revenues (49%), better competitive advantage (48%), improved financial controls and compliance processes (44%), and more.

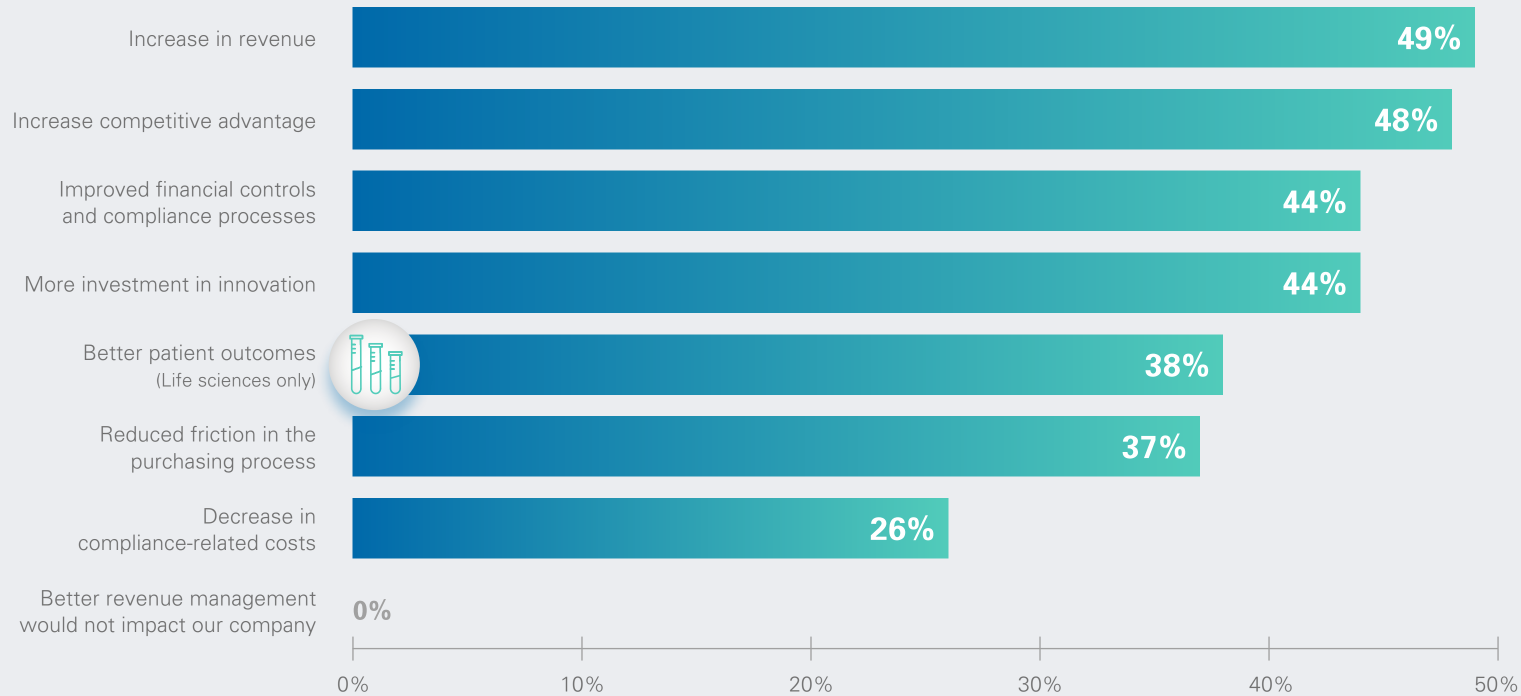
Life sciences executives were asked about patient outcomes, and well over a third (38%) indicated that they believed improved revenue management could have a direct impact on this key benefit.

To realize the value of technology, its capabilities must align with a business's needs and operations. Vendors that help ensure capabilities are deployed properly and in the most advantageous way for a company's specific situation can help that company maximize the return on its technology investment. When considering cloud solutions, 92% of C-suite executives agree that they want to work with vendors that understand their companies' unique business challenges and have deep expertise in their sector.

92%

of executives agree that their cloud solutions should come from a vendor with deep expertise in a sector's unique business complexity and challenges.

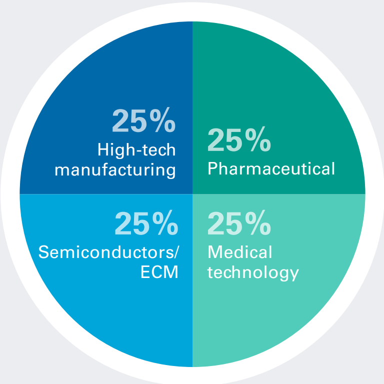
What benefits would your company expect to gain through improved revenue management capabilities like these? *Choose all that apply.*



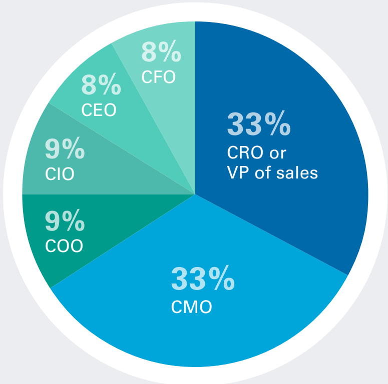
Survey methodology and participant demographics

In January and February 2021, Dimensional Research conducted an online survey with independent sources of top executives working in select industry verticals. A total of 300 qualified executives completed the survey. All participants had direct responsibility for revenue management in a C-level or other top executive role at a company with more than $250 million in annual revenue. A variety of questions were asked on a range of topics including current approach to revenue management, opportunities to improve it, and the role of technology. To enable trend analysis certain questions were repeated from a 2020 study with a similar audience.

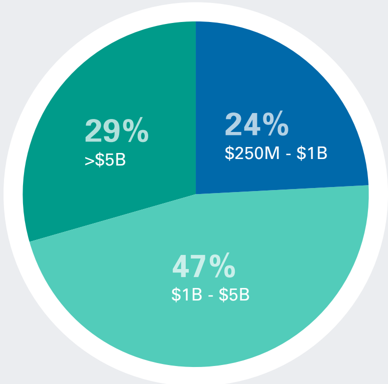
Industry



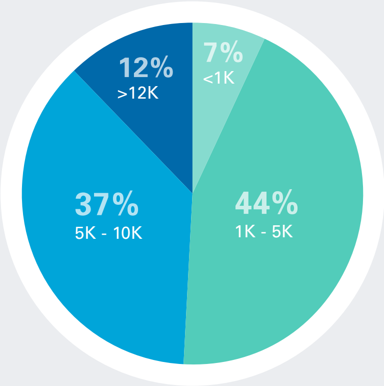
Role



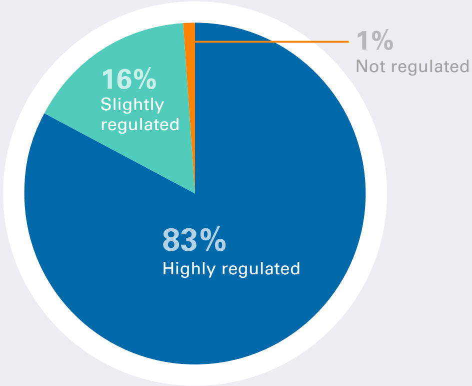
Annual revenue



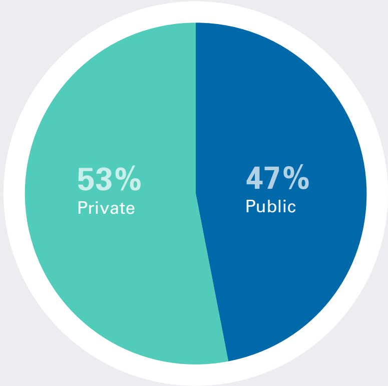
Number of employees



Level of regulatory compliance



Company ownership



About Model N

Model N enables life sciences and high tech companies to drive growth and market share by minimizing revenue leakage throughout the revenue lifecycle. With deep industry expertise and solutions purpose-built for these industries, Model N delivers comprehensive visibility, insight, and control over the complexities of commercial operations and compliance. Its integrated cloud solution is proven to automate pricing, incentive, and contract decisions to scale business profitably and grow revenue. Model N is trusted across more than 120 countries by the world's leading pharmaceutical, medical technology, semiconductor, and high tech companies, including Johnson & Johnson, AstraZeneca, Novartis, Microchip Technology, and ON Semiconductor. For more information, visit **www.modeln.com**.

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