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**SPECIAL FOCUS
REPORT**

Trading partners collaborate on chargebacks management

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AmerisourceBergen and its trading partner, Sanofi-Aventis, use business process management (BPM) software to automate contract administration

"Collaborative commerce" is a business practice often held up as an ideal for trading partners like pharma manufacturers and their wholesalers. In theory, the trading partners can help each other by sharing marketing data and aligning their business practices more closely. Lower costs, smoother-running supply chains, and more predictable business prospects are among the potential benefits.

A showcase example of such collaboration is now ramping up between Sanofi-Aventis (Bridgewater, NJ) and AmerisourceBergen (Conshohocken, PA). The project has only just begun delivering results, but those results were good enough to earn AmerisourceBergen one of the i-Business Solutions Awards at this year's Healthcare Distribution Management Assn.'s conference (Orlando, FL, June 14-16).

The goal of the collaboration was to get better visibility and management of the chargeback process between the two companies. Handling chargebacks has long been recognized as an essential, but challenging, part of manufacturer-wholesaler relations. The chargeback comes about through the difference between the wholesaler acquisition cost (WAC, the price that the manufacturer charges the wholesaler) and the price that might have been negotiated between the manufacturer and a wholesaler's customer. In cases where the contract price is substantially lower than the WAC, the wholesaler will bill the manufacturer for the difference—the chargeback.

Due to continually shifting business conditions, both contract prices and the WAC can change frequently. When they do, both trading partners need to carefully analyze the customer sets, the prices, and the time factors when changes are to go into effect. New information technology, primarily in the form of a business process management (BPM) program called e-Work from Metastorm, Inc. (Columbia, MD) now allows these changes to be recorded, then set into practice, in "near" real time. Both partners (who are both using e-Work, although this is not an essential condition) are able to look into each other's systems to note that a price or contract change has been received, "scrubbed" and validated against internal business rules.

Amerisource says that its contract process generates "millions of chargeback lines" per month, so even an improvement of a few percentage points in how the chargebacks are handled can result in significant savings. Electronic data interchange (EDI), a set of standards for how such business information can be exchanged, was supposed to take care of this problem years ago, but EDI is far from universally accepted, and lacks the

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As the waters have subsided, CFOs and their accounting and advisory firms have picked themselves up, looked around, and realized first, that they survived, and second, that there are some new business practices . . .

interactivity that the Web-based e-Work system provides. "We typically receive chargeback information via EDI, e-mail, faxes and even regular mail," notes Laura Dawson, manager, contracts, at Amerisource. "With non-electronic information delivery, we immediately have a problem because that information has to be keyed into our systems manually."

Reconciliation woes

For the chargeback process to work smoothly, the right information has to be available at the right time. Any number of variations from standardized practices can cause the chargeback record to be rejected, necessitating a review and resubmission. With e-Work, the scrubbing process includes time and date stamping, recording contract terms, and checking terms against the business rules. The scrubbing and validation itself reduces some of the errors; equally significantly, when chargebacks are rejected, both parties have ready access to what originally happened, thus speeding up the resolution.

The two trading partners even agreed to allow each other to receive information from the other's systems, to confirm not only when contract data was transmitted, but also (in the case of AmerisourceBergen), when its regional network of computer systems receive the downloaded information from the main server. "This has improved our workflow and reduced incorrect pricing," notes Patricia Adams, direction of contract operations at Sanofi-Aventis, adding that her department's practices are all the more complicated as a result of the Sanofi and Aventis merger of last year. "It's hard to accurately measure the impact of the new process at this time, given that we are going through an integration. Nevertheless, it's clear that we're improving our communication process."

"The e-Work system is very intuitive, with a strong user interface that allows us to look at contract details quickly," notes AmerisourceBergen's Dawson. For AmerisourceBergen, the chargeback process is only one of series of implementations of e-Work within the company; additional ones are currently being rolled out. For Sanofi-Aventis, the implementation is one of the first within the company, but there are plans to install it elsewhere to manage other business processes.

"Transferring such data between the two partners is not especially novel," says Tom Marks, principal of Tom Marks Consulting, who handled project-management duties from the Sanofi-Aventis side (Smart and Associates, of Devon, PA, handled the AmerisourceBergen side). "What is new is that now the partners have an easy way to look at parts of their internal operations on both sides, and to put in or pull out data as needed."

BPM and contract administration

Business process management (BPM), which has been evolving in IT circles for over a decade, seems to be an ideal approach to contract administration. The idea is simple: to turn a manual set of back-office operations into an automated data-gathering and analysis process, running off a central data repository, and taking advantage of the latest innovations in software interoperability. Robert Farrell, Metastorm CEO, says that e-Work is part of a suite of automation tools that can be applied to a wide range of business processes. The company also offers a design tool to show, in graphical terms, the flow of process data and the desired steps to automate, and analytical tools to reveal trends within the data flows. Unlike earlier IT systems that locked an organization into an inflexible process, e-Work allows the organization to tailor its software to its existing processes. "Think of 'process capital'—the innovative ways in which a company performs—as an asset of that company," he says. "We allow the company to capture the value of that asset."