



Designing Incentive Compensation Plans for Specialty Products

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Introduction

The pharmaceutical industry is undergoing a significant transformation - shifting away from the development of blockbuster drugs to a more value-driven approach based, increasingly, on specialty medicines for niche markets and patient outcomes.

Since 2010, drugs for rare diseases have higher than average approval rates for every stage of the FDA approval process than traditional drugs. The reason for these different rates of approval rates is unclear. It is possible that it is simply easier to design effective drugs for rare diseases, many of which are genetic diseases with a single identifiable cause and a clear drug target. In comparison, many chronic diseases result from a complicated interaction of multiple genetic and environmental factors.¹ Higher margins and leaner competition could also drive companies to focus here. To classify as a specialty drug either of the following criteria should be met:

- Any product with a typical dose of more than \$500 or therapy costs of more than \$6,000 per year.
- Products that are utilized as part of a complex therapy for a complex disease.
- Products that require specialized handling or administration, shipping or storage. These products may also have an FDA mandate on training or certification for drug administration.

With the rise of specialty products in the marketplace there has been an increase in demand to have a separate channel, or specialty pharmacies for drug distribution.

For the commercial operations landscape, specialty pharmacies come with their own specific challenges across data integration and data coverage. Further, procuring market data is also difficult and cost prohibitive, leading to unreliable specialty product forecasts, both of which limit the components used for Incentive Compensation (IC) to product based sales and activity objectives. Complicating the matter even more, many specialty products have multiple indications that cloud the ability to identify appropriate data sources for use in IC.

The focus of this white paper is to highlight key challenges in designing IC plans for promoting specialty drugs by a pharmaceutical sales force and recommended best practices when approaching them.

Key Challenges in IC Design

There are some unique challenges in designing incentive compensation plans for specialty products. Over the following pages we will discuss each of these in turn, detailing the issues and making some recommendations on how to approach them.

The major challenges in Specialty Products IC Design are:

1. Leveraging data from specialty pharmacies
2. Specialty pharmacy contracting and missing data during performance period
3. Limited Access to Market Data
4. Unreliable product forecasts
5. Product with multiple indications

Leveraging Data from Specialty Pharmacies

While there is an increase of oral pills and tablets entering the market, many specialty products focus on injectable or infused formulations, that require specialized handling or administration. Specialty pharmacies provide a valuable service that helps to coordinate delivery and offer comprehensive support in the distribution of specialty drugs. Much like larger third party syndicated data sources*, specialty pharmacies can also provide data to their customers.

Contractual agreements, between specialty pharmacies and syndicated third parties, is the easiest solution to retrieving specialty pharmacy data. However, in situations where contractual agreements do not exist, the pharmaceutical company must contract directly with the specialty pharmacy to procure the data for their commercial operations.

Before beginning any design activity, it is critical to ensure IC grade** data is available. Specialty pharmacy data presents unique challenges to the administration of an Incentive Compensation plan:

- **Data Integration:** The acquired data must be integrated with other data sources. Standardizing, cleaning, and processing specialty pharmacy data can be an arduous task. When contracts exist with syndicated data providers and specialty pharmacies, this activity is generally

performed by the data providers. Otherwise, it would need to be completed by the commercial operations group or their contracted vendor.

- **Data Issues:** Delivery delays, inconsistent data formats, incorrect data, missing data attributes are just a sample of other data specific issues commercial operations groups face with specialty pharmacies. To address these issues, a flexible data management system that can handle varied situations provides significant value. The data management system should be easy to configure and manage business rules around missing data, quality control, exception handling, standardization etc.

Specialty Pharmacy Contracting and Missing Data During Performance Period

Contracting between pharmaceutical companies and specialty pharmacies is another method used to secure product data for the commercial operations team. Contracts, typically negotiated by managed market teams, are time bound and must be effectively managed to ensure uninterrupted data supply. If data gaps occur during the performance period, commercial operations must be prepared with governance rules to mitigate the impact to downstream processes, including but not limited to Incentive Compensation.



* Secondary data sources like IMS Health, Symphony Health Systems etc.

** IC Grade data is the one which has appropriate coverage in the nation and there are no voids in the data

Figure 1 gives an overview of the common practices in the industry with varied cost impact:

Frozen Quarters

- Absolute Alignment Freeze
- Changes roll into next quarter
- Easiest Administration
- Can limit field motivation in some cases

Low Effort

End of Quarter Adjustments

- Alignment/Goal Adjustments approved at end of quarter
- Changes During the quarter applied prior to final calculations
- Home Office Approval process needed
- Workflow technology optimal for execution with field
- Additional administrative burden at the end of quarter

Medium Effort

Monthly Adjustments

- Alignment/Goal Adjustments allowed during each month of performance period
- Constant change management and administration burden
- Strict change management policies needed to limit change requests
- Workflows necessary for adjustments if field approvals needed

High Effort

A popular practice is to establish a threshold on impact.

For instance, if the impact is less than 5% (depending on company tolerance), then there will be no adjustments.

- For low impact scenarios, the sales operations team can collaborate with analytics team/vendor to assess the impact and create guidance sales for the affected territories until the actual data is received. Payouts are true-up once the actual data is received.
- If the impact is high, then the affected territories can be paid at target until the contract is negotiated with the dropped specialty pharmacy. Once the data is available, true-up can be carried out to compute actual payouts.
- If there are no plans to move forward on a contract with the dropped pharmacy, it is best to re-calculate baseline/goals by removing the data from the dropped pharmacy.

Limited Access to Market Data

Market data for specialty products is a difficult endeavor to capture, as there tends to be at least one missing source. In our experience, two examples are prevalent.

1. Specialty pharmacy does not provide its market data to secondary data providers
2. Small niche pharmacies that cater to a specific population in large metro areas.

These contracts, especially for market data, are cost prohibitive and as such contracts for market data should be negotiated only when necessary.

From a commercial operations perspective, avoiding market sales data based components like market share, market share growth etc. in incentive compensation plan design is a best practice. It is better to measure IC performance with two dimension grids on volume & volume change, or district/



region level plans to promote team morale. In addition, including an objective (MBO) based component into the IC plan would also be recommended.

Unreliable Product Forecast

The specialty product market can also be unpredictable, with many factors contributing to why forecasts can deviate significantly from actual sales. Limited or a lack of market data, the potential for unpredictable behavior from the HCP, along with concerns from payers and patients when looking at new-to-class products can also add to the uncertainty. All of these factors can contribute to an inaccurate forecast ultimately resulting in poorly set territory goals, leading to disparate payouts.

To create a safety net for the representatives and make the IC plan fiscally responsible, an option for commercial operations teams is to utilize a national performance index in their IC computations. A national performance index looks at the ratio between geography and national attainments and factors geographic payouts relative to the national performance.

Multiple Indications Product

Some specialty products have been approved for multiple indications and can treat different disease states. Complicating this issue, some products may have side effects that may benefit a patient, but that are not approved by the FDA. This poses a unique set of challenges for commercial operations to ensure sales teams are compensated for on-label, approved promotional activities to defined HCP specialties.

In situations where patients are treated by physicians having mutually independent specialties, then scripts can be split by those specialties for sales crediting. The problem is aggravated if a HCP prescribes for multiple indications of a product. In these cases, it becomes pertinent to split the scripts by indication using additional data sources with diagnostics information such as Anonymized Patient Level Data, Hospital claims, medical claims, etc.

Depending upon the coverage of the available diagnostics data, an adjustment factor may need to be computed at a geographic level. It can also help if there is an analogous product which has similar indications, better coverage, and similar trend, which can also be used to compute geographic factors.



Conclusion

Specialty products will continue to be a focus area of drug development across the industry. More than ever, commercial operations teams need to have an automated and flexible system for data management and a strong governance framework to ensure that gaps in data availability are minimized.

Forecasts based on specialty data can be very unreliable, resulting very high or low payouts and exposing companies to financial uncertainty. This can be addressed by including a national performance index as part of the IC plan. In addition, identifying the correct data sources for multiple indications of a given product is important, and procuring such data, including patient level data, if required, can be

very expensive. Lastly, depending upon the coverage of the diagnostics data available, an adjustment factor may need to be computed at the geographic level.

Designing IC plans reliant on Specialty Pharmacy data can be challenging for these reasons, and many companies are now evaluating non-sales based components, like MBO, and non-market sales based components, like 2-dimension grids on volume and volume change, in their IC plan design.

If any of the topics discussed in this white paper are of interest to you, and you would like to discuss our best practice recommendation for designing IC plans for specialty products in more detail, please reach out to us at insights@axtria.com. We would be happy to set up some time with our experienced subject matter experts.



Sources

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