Biopharma Guide to Streamlining Financial Planning & Analysis

GRANDVIEW

Introduction

Biopharma companies face challenges when managing expenses for healthcare product research and development (R&D) and clinical trials. Typically, these companies start by investing heavily in R&D and clinical trials to support the development life cycle. For these reasons, entries on the expense side of the ledger far outnumber those on the revenue side which, in some cases, may even be blank.

Biopharma companies tend to rely on manual processes, such as Excel spreadsheets, to manage expenses. These manual processes lack the agility needed to track performance for separate contracts and to adapt to changing circumstances.

Financial planning shouldn't be relegated to a tool that wasn't designed for analysis. Manual processes make it time-consuming for the finance teams at biopharma companies to carry out the complex calculations they must perform to forecast and fine-tune expenses for projects.
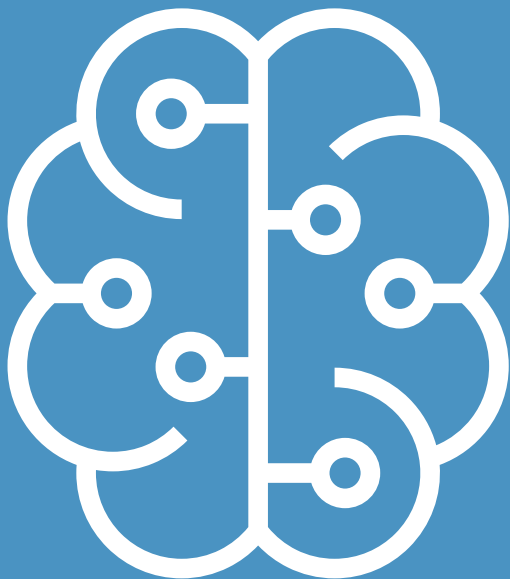
150%

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This eBook explores 3 steps in the process of streamlining financial planning and analysis:

Step 1: Forecasting

Step 2: Root-Cause Analysis

Step 3: Refinement

STEP 1: Forecasting

Using manual reconciliation to manage expenses for R&D and clinical trials is time consuming and error prone. Finance teams have the expertise to calculate expenses, but using spreadsheets to collect and manage data makes gaining full visibility into financial information difficult.

When biopharma companies rely on spreadsheets, they can only look backwards, not forwards. These spreadsheets contain historical data but lack the capability to forecast future expenses for upcoming projects. It's no wonder that 64% of annual budget plans are out of date before they are even put into effect.

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Well before a project begins, biopharma companies must decide how much they are going to spend on trials and product development and collect the data into a format so they can track expenses. They also need to determine what number of patients is adequate for a clinical trial.

STEP 1: Forecasting (con't)

Financial planning analytics allow these companies to forecast expenses based on historical data. By integrating predictive analytics, advanced FP&A solutions can detect trends in expenditures and use them to forecast what budget will be necessary to fund an R&D project or clinical trial. Based on this forecast, biopharma companies can set realistic budget targets.

Working With CROs

Analytics also empower biopharma companies to make complex calculations based on multiple contracts with the contract research organizations (CROs) that execute trials, product development, and testing projects. Every contract is different, so the company must forecast the cost of a CRO according to the specific terms of each contract and the relevant triggers.

Analytics enable these companies to process the information from numerous contracts to plan on how much to spend on each project and set expectations for performance.

STEP 2: Root-Cause Analysis

Throughout a project, such as a clinical trial or product development, biopharma companies should use analytics to evaluate operational performance. When these companies outsource execution to CROs, they need to track performance against multiple contracts with different operational requirements and budget specifications.

Financial planning analytics integrate the budget forecast and actuals to facilitate analysis, allowing biopharma companies to track expenses during trials and R&D projects and detect deviations from the plan. Expenses can be tracked against the targets that were set during the forecasting step.

However, detecting variations is not enough. These companies must determine the cause of budget discrepancies if they want to get back on track or continue to improve performance.

Gaining Visibility Into Data

Conditions can change between the time a budget is set and an R&D project or clinical trial begins. Unanticipated project delays or additional travel for on-site management visits can throw a budget off track.

By combining data with dashboards, the financial planning analytics solution empowers companies to visualize data and reach insights about the root cause of budget deviations. Once the actuals come in, the company can see what is going well and what is going wrong, as well as what is driving the change.

STEP 2: Root-Cause Analysis (con't)

Root-Cause Analysis for a Clinical Trial

This view shows all the trials currently designated for a molecule. Key info in this view, combined with others, helps drive the root-cause analysis by showing where issues in the trial process exist.

A root-cause analysis enables biopharma companies to understand why a project is exceeding or staying under the forecasted budget and to generate actionable insights that can be used in the next step of the financial planning process.

STEP 3: Refinement

Financial analytics allow biopharma companies to be agile in financial planning by refining their budget as a clinical trial or R&D project progresses. Excel makes it difficult for companies to adjust when something doesn't go according to plan. With predictive and causal analytics, biopharma companies are armed with the actionable information they need to refine their plans.

The ability to refine an R&D budget is becoming increasingly important as expenses rise, surpassing revenue gains for biotech companies. The 2020 BDO Biotech Briefing reported that R&D expenses rose by 22% between 2018 and 2019, while average revenue grew by a mere 2% during the same period. To lessen the gap between expenses and profits, biopharma companies need to use analytics to keep project budgets on track.

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STEP 3: Refinement (con't)

Agile Budget Planning

Clinical trials and R&D projects don't always go according to plan. Projects can be delayed or unexpected events can occur, such as adverse reactions that cause a shutdown, interruptions in supply chains, or changes in equipment costs.

Refining a Clinical Trial Budget

The budget for this trial is 5% lower than the forecasted budget. Based on a detailed breakdown of expenses, the researchers can refine the budget going forward.

STEP 3: Refinement (con't)

Based on a causal analysis of financial data, biopharma companies can refine their budgets to meet changing performance needs. If these companies know why a trial or R&D project is exceeding its budget, they can correct the problem or fine-tune the budget to accommodate the change. When these companies understand why a project is under the forecasted budget, they can refine processes to continue to be cost-efficient during the current project as well as in future ones.

To be successful, biopharma companies must take an iterative approach to financial planning and analysis (FP&A) that involves cycles of continuous improvement based on a rolling forecast.

Closing the Loop for Financial Planning and Analysis

Biopharma companies need to be able to address the complexities inherent in financial planning. By analyzing historical and current data, these companies can adjust for changing conditions and to get back on track for performance.

By taking these 3 steps of forecasting, root-cause analysis, and refinement through analytics, biopharma companies can close the loop on financial planning, allowing them to set accurate goals and meet them.

STEP 1:
Forecasting

STEP 2:
Root-Cause Analysis

STEP 3:
Refinement
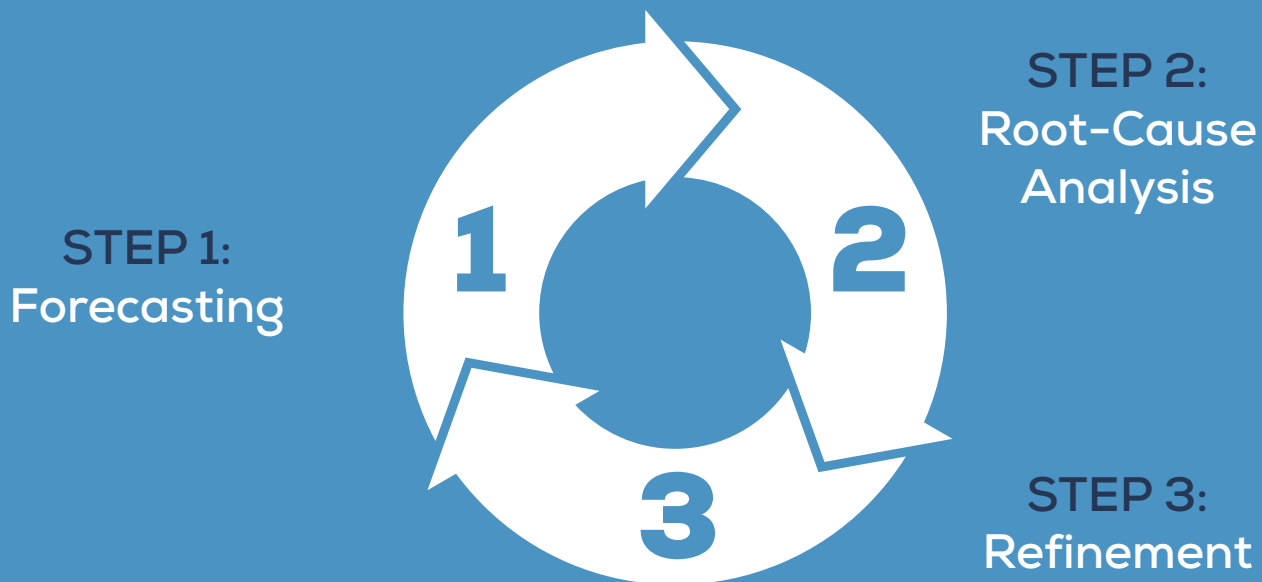
The FP&A process is more than a series of steps. The process is a continual flow of forecasting, finding the causes of deviations, and fine-tuning the plan so your company can be flexible.

Grandview helps biopharma companies of all sizes streamline their financial planning and analytics processes through analytics software, including IBM Cognos Analytics, a robust solution that brings cognitive analytics capabilities to the table, and IBM Planning Analytics for business performance management.

Find out more about how Grandview can help your business use intelligent analytics for smarter financial planning at grandviewcorp.com.

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