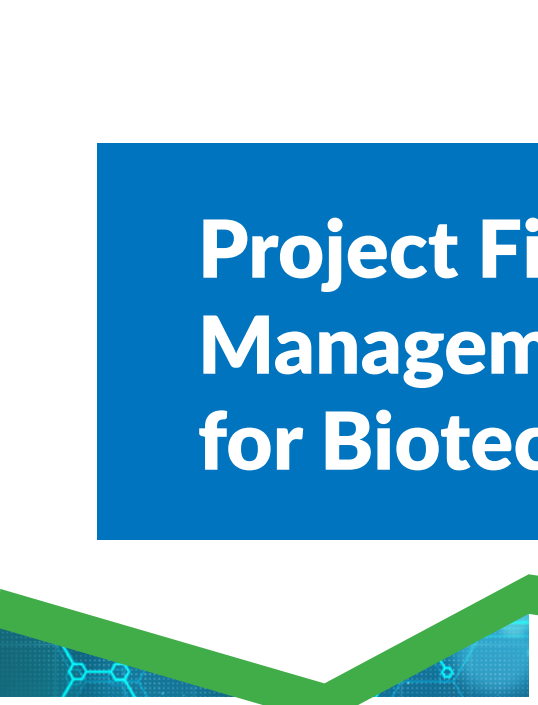
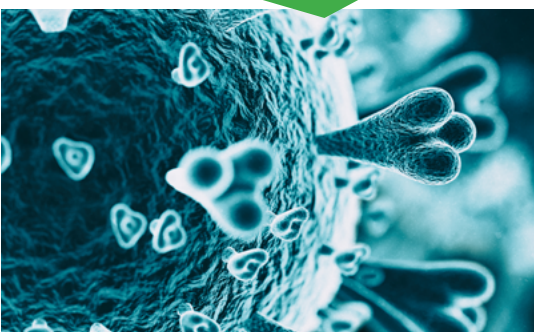
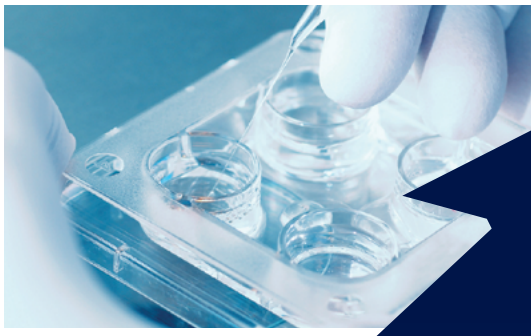
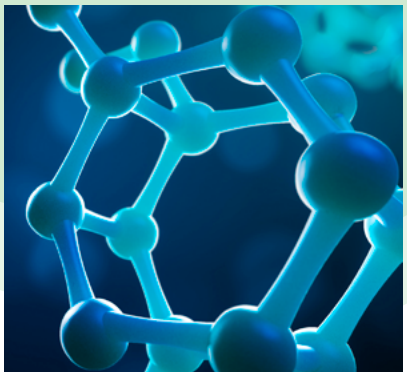
sage Intacct

Project Financial Management for Biotech





Improving Human Health

Biotech and pharmaceutical companies collectively represent some of the most exciting and life-improving innovations of the last 30 years, ranging from better medications to manage cholesterol and heart disease to tailored, specific treatments such as CAR-T cancer immunotherapy, diagnostics including massively parallel sequencing to identify rare disease causes, new imaging agents, and novel gene editing technologies. During the COVID-19 pandemic, these industries mobilized efforts to develop medicines and vaccines to help overcome the novel, globally disruptive disease, demonstrating their indispensable capabilities. The collective improvement of human health and the hope for new treatments to mitigate and eradicate disease continuously stimulate new innovation, which generates new businesses and new opportunity. According to recent Deloitte studies, by 2024 biotech will be responsible for 31% of overall health care spending, and pharmaceutical sales alone will be worth 1.2 trillion USD.[1,2]

To adequately monitor spending and goal attainment, project managers and financial staff need better visibility into project financial management.

Despite the great promise in this sector, the challenges are immense. These organizations seek to solve highly complex problems, and the costs are exceptional. For instance, pharmaceutical drugs can cost upwards of 2 billion USD in their journey from concept to market.[2] The companies behind these innovations exist in various stages of development, from small startups to well-recognized household names with profitable products. Likewise, financial management of those companies spans a range of needs. In every case, **sound cost management processes are crucial for development and growth**, and it is imperative that adaptive financial systems are in place that can handle complex projects and the company's progression through different stages of maturity.

Project-centric

Biotech, pharmaceutical, and medtech companies are often engaged in several simultaneous individual projects. Instead of throwing the full weight of a company behind the development of a single product, they see wisdom in diversifying project options. The result is a balanced risk approach, and the key is to waste as little resources on the ultimate project failures as possible, identifying "winners" and sticking with them. Each project will have its own requirements of research, development, team members, materials, equipment, and physical space—each with associated costs, all aimed toward the accomplishment of a clear objective. A downside of the project-centric approach is the complexity of monitoring all project-related costs. Additionally, while good project managers can maximize output efficiency with given resources, making possible what at first may appear impossible, these individuals often come from pure scientific backgrounds. They bring specific scientific expertise, but in addition to vetting the science, these managers must put on a "financial hat" to engage best business practices. To adequately monitor spending and goal attainment, project managers and financial staff need better visibility into project financial management.

Specific biotech finance challenges

The challenges of financial management in biotech are numerous. At the start-up stage, companies usually rely on grants and funding from seed investors. With a limited pool of funds, they must generate products or the promise of successful future products that will drive future rounds of investment, and the time spent in this funding-based business model can be quite long. Adopting the project-centric approach allows the costs associated with each project to be assessed, measuring the efficiency with which funds are generating tangible project objectives. However, certain resources, such as equipment, manpower, and lab space, are shared across projects, increasing the difficulty of accurately measuring specific project costs and efficiency. Biotech companies are also much less likely these days to operate as islands. Endeavoring to reduce costs, research is often outsourced to CROs, products are acquired in later stages of development, and collaborations and licensing agreements are the order of the day; each of these arrangements introduces complexity to the risk and overall financial picture. As companies grow, the financial outlook changes dramatically. New agreements and deals are entered into, new rounds of funding take place, clinical trials and regulatory approvals demand huge funding increases, and in many cases, an eventual move is made to a public offering with transition to a revenue-based business model.

It is already hard enough to show investors, who may not be experts in a particular field, that the science and the efficacy of a particular new technology is worth investment.

The financial picture remains complicated throughout. Biotech and pharma are heavily regulated, heavily scrutinized industries. Complicated products require stringent attention to manufacturing processes to maintain quality. Product and drug recalls occur. Public ownership creates new standards of accountability to shareholders. External factors, such as new understanding in a particular area, can significantly alter the profitability of a product during any stage of development. Competitors enter the same space. Patents eventually expire, and further mergers and acquisitions alter the landscape.

Common challenges

At every stage, there are common questions that biotech and pharma companies must answer. What are the best financial metrics, and how do you calculate them? How do you know if your projects are on track? How do you accurately measure the costs of each project? Can you identify opportunities for increased efficiency or reduced cost? If you're burning through your budget, when is the right time to seek additional funding? Can you produce accurate and complete financial records quickly to assure investors or secure a merger, partnership, or acquisition?

It is already hard enough to show investors, who may not be experts in a particular field, that the science and the efficacy of a particular new technology is worth investment. But to be taken seriously, financial officers must be able to reliably demonstrate where funding is being used, how long it will last, and how much more is needed. In other words, not only must you show the brilliance and scientific merit of your idea, you must show that you use responsible business practices and will continue to manage money effectively. If your financial analysis relies on Excel spreadsheets and QuickBooks, you may not be taken seriously.

Why spreadsheets are ill-equipped

Many companies use spreadsheets to monitor finances, at least at some stage of their life cycle. Despite their low cost and the ability to tailor spreadsheets to individual preference for analysis and report generation, there are many problems associated with their use in the complicated biotech environment. Perhaps most important, studies show that as many as 94% of spreadsheets contain errors[3], and these errors can translate to real-world costly consequences.[4,5] Spreadsheets rely on manual creation, data entry, and manipulation, usually without good documentation or oversight, and thus are too often susceptible to human error. They can contain hidden data. They are not amenable to collaboration, and they are insufficiently capable of quickly producing real-time data. Accounting staff often need to combine information from multiple spreadsheets to arrive at a comprehensive picture. The spreadsheets do not generate audit trails when cells and formulas are changed, and ultimately, they are not reliable. They waste valuable time.

A more robust financial system can help companies identify the best performance metrics, recognize true costs, and identify opportunities for improved efficiency, making funding last longer, increasing profitability, and adapting with the biotech company as it grows.

Best practices for biotech financial project management

Today's biotech companies must be agile across the board. Financial analysis needs to be automated, enabling project managers to take a more financial approach and make financially responsible decisions when deviation from the initial plan inevitably occurs. Generic accounting software such as QuickBooks is poorly equipped to meet these needs. To satisfy the complex needs of a growing biotech company, many have adopted a cloud-based accounting system that fosters collaboration, streamlines multi-centered operations, and allows access from anywhere by multiple individuals. The right software can generate real-time data quickly, allowing financial managers to spend time focused on interpretation instead of data entry and manipulation. The project-based analysis allows compartmentalization of costs and outcomes, and a good project accounting solution will automatically measure these costs, including time, for each project. With this data easily obtained, better-informed decisions can be made about which projects to pursue and which are not meeting goals. A more robust financial system can help companies identify the best performance metrics, recognize true costs, and identify opportunities for improved efficiency, making funding last longer, increasing profitability, and adapting with the biotech company as it grows.

How cloud-based financial management can help

The global CRO Clinical Trial & Consulting Services (CTI) uses Sage Intacct for cloud-based project financial management of clinical trials. Like many startup companies, they started out using on-premises software, including spreadsheets, to keep their books. In that era, according to Brian Lawrence, senior director of finance and taxation, "CTI's project accountant spent multiple days gathering data from two different Microsoft Access databases and manipulating it in Excel in order to build monthly labor reports."[6] This was necessary because they had disconnected silos of data held in accounting,

expense management, and time tracking software, and this approach did not scale well as the company expanded. CTI reports that adopting Sage Intacct paid for itself in less than 4 months, saved 30 hours per month managing the monthly close, and cut project reporting time by 16 hours per month. Lawrence also indicates that the cloud software has given him the "opportunity to expand in a lot of other areas of finance that I probably wouldn't have had the opportunity to get involved with". It has reduced stress on the financial team and allowed everyone to focus more on high-level strategic tasks by providing accurate visibility into project and labor costs, which can be reported in various dimensions. "Sage Intacct lets us run utilization, efficiency, and expense reporting at the project, task, department, or customer level for granular transparency into our labor costs and profitability across various operational categories," said Lawrence.

The benefits of Sage Intacct

Sage Intacct is built to integrate with the many other management systems that make up the typical technology stack, such as inventory control and lab information management.

In the fast-paced world of biotechnology, it can be difficult for a small startup or even an established business to recognize when it's time adopt a new financial management system. It can be even more challenging to identify the right system that will satisfy the varied needs of managing funding, spend, billing, and financial reporting as the company grows. Sage Intacct is the only proven provider of cloud-based project financial management solutions endorsed by the AICPA. Sage Intacct is built to integrate with the many other management systems that make up the typical technology stack, such as inventory control and lab information management. Widely adopted by biotech companies, Sage Intacct has been used on over 1.5 million projects. For more information about how Sage Intacct can help your business, please visit www.sageintacct.com

1. https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Life-Sciences-Health-Care/gx-lshc-ls-outlook-2019.pdf
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