Clinical Maestro Blog

Innovation in Clinical Outsourcing!

The Cost of Benchmarking is a Necessity for Smart Sourcing

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Would you buy a house without looking at comparative properties? Sell or buy a car without consulting different specialized sites? Ask for a raise without looking at the compensation trends? Then why on earth would you buy tens of millions of dollars of clinical services without a benchmark?

It is puzzling how most biopharma companies still launch into the outsourcing process without solid pricing intelligence to leverage in the negotiations with clinical service providers, such as CROs, potentially leaving significant savings on the table. There are several reasons for the current state of the industry: smaller biotechs generally view competitive bidding as the best method to align bids in a negotiation process; larger organizations rely on strategic partnership agreements or their own historical data to simplify the bid negotiations and leverage internal baseline, e.g., fixed unit pricing. Both these methods are inherently flawed, leading to a loophole in due diligence and significant delays in the clinical study start and cost, lengthy negotiations, and multiple change orders down the road.

Let's start with a "competitive bidding story". One of our customers, a leader in oncology, brought us in "rescue mode" after having started a competitive bidding process in which 5 CROs were invited. The result? There was more than 100% variance between the lowest and highest bidders. Whose budget is the right one? Hours had been spent already in aligning bids side by side since the biotech didn't use a standardized bid grid (the CROs had told them that the bids would be easier to review if submitted in the "native" format of the CRO). We modeled the study in Clinical Maestro®, used our industry benchmark costing data, determined the "baseline budget," created an RFP and re-sent it to the CROs via Clinical Maestro, all within 3 weeks.

Short story: the rescue mission was a resounding success. The contract awarded was within 5% of the original baseline budget. The biotech saved $800K leveraging the benchmark budget and the sourcing engine, which allowed side by side comparisons of unit cost, unit effort and rate cards.

This case study is the de facto story of small to mid-size biopharma companies. These organizations tend to have an underdeveloped outsourcing function with 1-2 employees, do not use a standardized bid grid – and, if they do, it is usually inherited from another company and not fit for purpose. The benchmark is disingenuous, determined from the competitive bids. Tremendous effort is spent in budget and scope alignment and, more than often, the awarded bid is not correctly sized to the project leading to multiple change orders and more negotiation frustrations down the road.

If competitive bidding is challenging, did the industry solve the due diligence problem with the strategic partner model? Recent Clinical Maestro customer stories and discussions with leading outsourcing experts are indicative that it has not, especially in the recent environment plagued by high inflation which made the internal historical benchmarks practically unusable. Benchmark costing data needs to be recent, dynamic, modeled to purpose. When historical trends are being leveraged to negotiate with CROs who have changed their costing model to adjust to market trends, it only creates frustration, to the Sponsor and the CROs. The fixed unit pricing has essentially fallen apart since 2022. CROs won't accept pre-inflation negotiated rates. New negotiations tend to be risk adverse scarring the partnership model. Sponsors, used to the "fixed cost certainty," are now faced with the challenge of the open, variable bid grids that are not aligned to historical data trends. The consequences: the strategic partner model is rethought, CROs partners are being swapped out, fixed pricing replaced with FSP, hybrid or variable models, all causing budgets to increase. Combined with under-resourced outsourcing departments, you end up with substandard outsourcing.

**So, what is the solution? Take the best of all worlds, by combining competitive and strategic partner models with technology for intelligent sourcing and cost benchmarking. Data shows this approach leads to >10% of clinical trial costs in savings.
Can you ignore 10% on an average $10M trial cost?
Your CFO, or Head of Operations would not.**

At Clinical Maestro we cannot either and this is why we continue to invest in the most advanced clinical outsourcing technology in the market. Whether conducting competitive bidding or re-inventing the strategic partner model and working in a non-competitive environment, benchmark costing data is essential to establishing the baseline bidding budget, leading to successful contract negotiations. Sourcing technology that is flexible enough to accommodate existing bid grids or creating new, that leverages AI-powered bid grid mapping and best in class processes, benefits both Sponsors and CROs by simplifying and de-mystifying the complexity of the clinical outsourcing process.