

## **Achieving a Well-Resourced Research Environment Cheap at Twice the Price!**

The previous articles in this series have discussed costs, and how to work out what they are. The cost of a project is the same, whoever is paying for it. The price paid, however, can differ.

The pricing of projects, or any other activity, depends on a number of factors. In some cases, markets are regulated, and hence prices are controlled in some way. Everyday examples of regulated markets are the utilities (electricity, gas, water, and phones). In other cases, markets are unregulated, and hence prices are set based on what the market will bear. The majority of everyday purchases are in unregulated markets. University research operates in both regulated and unregulated markets. This factor has often confused matters, because we have not properly recognized the difference.

Research Council projects are an example of a regulated market, in which the prices are set on a cost basis; i.e. certain eligible costs. Although the costing basis will change as a consequence of Dual Support Reform, with the introduction of full economic costing (FEC), Research Council projects will still be a regulated market in terms of price, because the Councils will only pay a specific percentage of the full economic cost, using a standardised methodology.

Examples of projects in unregulated markets are those for industry and open-tender projects for Government. In these cases, the price is subject to negotiation, and may or may not have a direct relationship to cost. In setting prices in these instances, one needs to take account of the full cost, along with the value of the project to the customer (i.e. is it time-critical for them, and hence can command a premium?), the uniqueness of the University's expertise (i.e. are we the only ones who can do this work?), and knowledge of what prices have been paid before in this market area. All this makes price setting in unregulated markets much more subjective and difficult than in regulated (especially cost-based) ones, and hence makes many people in a university environment nervous.

In an unregulated market, a university will usually be seeking to agree a price that is at least at the level of the full economic cost (FEC). The Government's Principles of Public Funding also expect this. To this end, the Treasury has written to all Government departments, informing them of their new expectations of universities, and also indicating the requirement to pay at least FEC for non-competitive contracts, i.e. where the work has been commissioned by that Government department and is not subject to a competitive tendering process.

Other factors that would normally be taken into account include the freedom of the researcher to publish the results, any exclusivity requirements (e.g. if the researcher or their department is restricted from performing research in the same field for any other customer), and the ownership of and benefits from the intellectual property of the results. If any of these are applicable, it would tend to increase the price above the FEC figure (because the customer is seeking to restrict the researcher's activity, during and / or after the project). This rarely happens in Higher Education, partly because we do not yet properly understand either our costs or the markets, and partly because we are afraid to act (including by turning down a project). In a sustainable environment, this will need to change.

When we price work, we often think in terms of the costs as presented on a Research Council or charity-funded project (nearly two thirds of the University's project income is from these sources). Given that a Research Council award currently covers only about 50-55% of the costs of a project (and perhaps 60% of the FEC in future), this is clearly not a good basis on which to negotiate price.

As we highlighted in previous Newsletter articles, with the introduction of FEC, it is likely that Universities will be required to balance, over a number of years, the income and expenditure from their research activities, so that they recover the full economic costs of their research. It follows, therefore, that when we price research work for the private sector or for public-sector organisations in an unregulated market, we should seek to maximise our price, taking into account the competitive environment. Maximising the price achieved is good business sense, but critically it can help to compensate for participation in regulated markets, which typically pay less than FEC (e.g. Research Council, EU, and charitable funding for research). Charging less than FEC for research in unregulated markets is not sustainable.

Academic institutions and their staff are in future being expected to recognise the full cost of activities, and also the value of those activities. This is not a one-way street, and funders of research will also have to adjust their understanding.

Finally, there are a number of terms often associated with costing and pricing, which are worth defining.

Cost	The total cost of undertaking an activity.
Price	The amount someone else is prepared to pay for that activity.
Additional or Marginal Cost	The cost of additional items of expenditure in order to undertake an activity, such as new staff, supplies not already purchased, new equipment.
Cost-Plus	A method of setting a price using a method (sometimes agreed) of costing plus an agreed profit margin (which can either be percentage-based or an absolute value).
Market-Value Pricing	Setting prices based on knowledge of what the market will bear. Requires in-depth knowledge of customers and competitors.
Opportunity Cost	The cost of doing something rather than something else. Especially applied to the cost of the time involved in unproductive activities (e.g. applications that have no chance of success).

Fuller guidance on pricing can be found in two publications from the UK Joint Costing and Pricing Steering Group: Pricing Toolkit for the Higher Education Sector; Developing a Pricing Strategy in Higher Education Institutions. (See [www.jcpsg.ac.uk](http://www.jcpsg.ac.uk))

This is the last of the series we advertised back in December 2003. However, it's not the last you'll be hearing of full economic costing, or the changes to the Dual Support system. There will be future articles on other relevant issues, and also on specific changes that are happening in the University. There will also be further faculty-based presentations on these subjects. If you want to know more, please see the University's FEC web site ([www.gla.ac.uk/fulleconomiccosting](http://www.gla.ac.uk/fulleconomiccosting)), or contact either of the authors.

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