



THE COSTS & VALUE OF SPONSORED RESEARCH

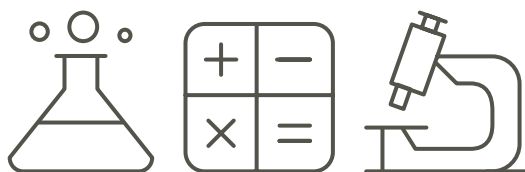
A healthy university research environment in the United States is impacted by the ability of academia and industry to negotiate funding agreements that accurately reflect the costs and value of the research to be conducted. Negotiation on the issue of Facilities & Administration (F&A) expenses are a cause of confusion and frustration on both sides, and can sometimes derail the parties' ability to reach agreement.

Every organization incurs costs doing business, irrespective of industry, sector or activity. The budgeting, expenditure and recovery of the real costs of industry-sponsored research directly impact our nation's ability to innovate and compete globally, now and in the future.



INDUSTRY-SPONSORED RESEARCH:

A university undertakes specified work, either for or with an industry partner, in which there is a reciprocal transfer of something of value.



RESEARCH COSTS

DIRECT COSTS: expenses that can be attributed directly and accurately to a particular sponsored project (e.g., salaries, benefits, equipment and supplies)

F&A (also known as indirect costs or overhead): expenses that cannot be directly attributed to a particular project (e.g., labs, classrooms, offices, libraries, office supplies, departmental administrative staff, utilities, maintenance, and research administration staff and offices)

UNDERSTANDING DIFFERENT PERSPECTIVES

Being aware of other perspectives doesn't imply agreement with them. But it can help parties find common ground in negotiations on many issues.

F&A costs are real and have to be covered. When we can't recover these costs, we have to use university resources to subsidize sponsored research, which leads to deficits in other areas of our institution. **U**

Low overhead costs reduce project budgets. When we also factor in more favorable IP terms, regional access and access to unique skills too, we may elect to work with high quality foreign researchers. **I**

Reducing F&A rates for industry-sponsored projects constitutes a gift of public and other funds for a specific company's benefit. **U**

We are sponsoring research. Universities receive support to cover F&A expenses from our tax dollars and have other resources available to help them offset F&A costs. **I**

University budgets reflect real costs we incur in the 'business of doing research' and do not include profit margins. We can't and aren't willing to compete with research institutions with lower F&A rates. **U**

We evaluate the quality of the research proposed before we look at costs. If all things are equal, cost then becomes an important aspect in our decision making. We have to be able to 'sell' this project internally. **I**

NEGOTIATING FUNDING: THE REALITY

In typical industry-sponsored research funding negotiations, a university and company agree to a project scope and the university develops a project budget. If the company proposes a reduced budget without amending the project scope, the university has limited options.

In some instances, a university considers reduced rates (e.g., through the use of unrestricted grants for research of interest (where there is not a likelihood of IP) and other activities considered charitable contributions) because it is in the institution's interest to do so. This can happen after a thoughtful discussion with the sponsor. In other instances, a university either accepts the reduced budget and subsidizes the project with other funds—which could impact its ability to negotiate F&A rates with the Federal Government to cover real costs—or refuses to accept the research funding.

NEGOTIATING FUNDING: THE RISKS

- Industry finds new places to conduct research, at home and abroad OR doesn't pursue the research
- Many US universities' research facilities and capabilities deteriorate
- University research becomes more consolidated, in fewer, larger institutions
- A less competitive research environment develops nationally, impacting the country's ability to innovate
- Lost opportunities for student training, talent recruitment, innovation and scientific discovery in the USA

BUDGETING RESEARCH DIFFERENTLY

The indirect costs of research are built into the price of goods and services, worldwide. Fully burdened budgets are standard in industry, where F&A costs are directly applied to specific direct costs. This means every budget line item in an industry budget reflects the full costs of the proposed work (direct + F&A), rather than showing a separate line item for the F&A costs, as in a university budget.

TRADITIONAL UNIVERSITY BUDGETING APPROACH

Labor

researcher 10% level of effort (salary \$120,000)

Salary	\$12,000
Fringes (25%)	\$3,000
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	\$15,000

Supplies	\$5,000
F&A rate of 50%	\$10,000
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Project cost	\$30,000

INDUSTRY BUDGETING APPROACH

Fully burdened labor rate

10% level of effort = 200 hours
 hourly rate = $\frac{\text{salary+fringes+overhead}}{\text{project hours}}$

Hourly rate	\$112.50
Project hours	200
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	\$22,500

Supplies	\$7,500
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Project cost	\$30,000

IF THE REAL COST OF A PROJECT EXCEEDS THE PERCEIVED VALUE, THE NEGOTIATION BEGINS HERE.

A company can propose an amount they are willing to pay for the work, and a university can decide whether to respond, revise the budget, seek additional funds or decline the project.