



Dear all,

Imagine the scene... You'd like a new car. You'd like a top-of-the-range new car. And you'd like it for a decent price. So you have a look around, and pretty soon, you have a bundle of car brochures in your hand with a variety of models and prices. Do you then email Audi, Porsche, Fiat, and Volvo (for example) and say 'OK guys, I have some money to buy a car, so let's have an auction to see who can reduce their prices the most and that's the car I'll buy'?

Well, you could try, but I'm guessing that you'd be able to hear the resounding laughter even through your computer screen. And the reason is simple – you're comparing apples with oranges and expecting

them to compete against each other on price alone. Sounds ridiculous? Unfortunately not, and it's a scary trend that is taking grip in medical writing.

This issue's article by Julia and Douglas from Trilogy outlines beautifully the science and history behind the emergence of these 'reverse auctions', and explains their positive use, and also the dangers for medical writers – both freelancers and companies alike.

If you have never taken part in one of these auctions, their article will give you a great insight into what they are like, and could send a chill through your bones.

You have been warned...

Bestest,
Lisa

Reverse auctions: the perfect folly for sourcing clinical research services

Reverse auctions, also known as e-auctions, are auctions in which companies who wish to buy a product have competing suppliers bid against each other to drive their prices down for that product. Reverse auctions are not a new tool in the procurement toolbox. They have been around since the 1990s and there has been much research into how they work and when they can truly aid companies in selecting the right supplier for the products or services they are seeking.^{1,2} When used in the right scenario, they can be quite effective. Unfortunately, however, a trend has developed in the pharmaceutical industry for using this tool to procure services of strategic clinical research providers, which fulfils none of the criteria for appropriate use of reverse auctions. The following outlines the many reasons for why reverse auctions are just not the right option for these types of services.

A fairly clear description of the types of goods and services that are best suited for using reverse auctions has arisen out of the research that has been done around the use of this tool in procurement.¹⁻⁵ What we know is that reverse auctions

work well when the product or service being purchased is simple, well-defined, non-strategic in nature for the buyer, and will require little collaboration between the buyer and the supplier.^{1,4,5} There should be several suppliers offering that service and they should have the capacity and skill set to do it well.² There should be little variance among supplier capabilities, to ensure that the suppliers participating in the auction are comparable. It must also be possible to precisely specify the scope of the service sought, with a thorough and unambiguous description of all the requirements. Indeed, one article states that 'specifiability' is the most important criterion in determining if a reverse auction is appropriate.⁶

If we consider many of the different types of services in clinical research that are being subjected to the practice of reverse auctions currently, it seems a poor match with the definition above. Let's take medical writing as an example. The writing of a clinical study protocol or a study report or a summary in Module 2.7 of a submission dossier is a complex intellectual activity. It involves several stakeholders interacting in a collaborative way. The documents are part of the company's strategic clinical development programme. From our experience, there is large variance in the quality of the

documents produced by different providers for a host of reasons. But most importantly, it is extremely difficult for the pharmaceutical companies to provide a thorough and unambiguous description of the requirements, mainly because these documents are often moving targets, which change over the course of the project. This is the nature of the beast in this case, and is a necessary part of crafting and developing these documents. Trying to pretend in advance that the work can be contained to a minimal effort lacks adequate insight into what it takes to produce a well-written, team-authored, strategic document. Given this direct polarity to the criteria defined above for when to apply reverse auctions, it makes one stop and think about why the industry is trying to use the tool in these situations. So let's look at some of the arguments for using reverse auctions for sourcing clinical research services.

Some argue that a reverse auction helps buyers get an overview of rates in order to better rank competing companies and to create a baseline for pricing based on averages.⁷ We would argue that buyers already know the baseline once they receive the original cost proposals. Unless suppliers are routinely offering inflated bids, the suppliers already have a cross-section of the market rates at the starting point. There is no need to have them perform the exercise of then reducing their bids based on no further information or change in specification other than some other supplier is more desperate to get the work than they are. In fact, buyers should wonder if forcing suppliers to participate in reverse auctions will not make them artificially inflate bids so that they have room to come down during the bidding process, to make it look like they are good sports and playing along.

Part of the rationale arguing for reverse auctions is that traditional price negotiations use up a lot of time. It can be difficult to get the real decision makers together for the haggling and as a result, negotiations often take several weeks as both parties make suggestions and then go away to think about it and produce counter suggestions. The idea and allure of a reverse auction is that the whole process only takes a few hours.⁸ Such a time saving would certainly make sense, if the reduction in price that occurs during a reverse auction were indeed the result of a true negotiation. But it is not. There is neither an exchange of ideas to better elucidate the scope nor the achieving of compromises arising from discussions on why and how the price could come down. If I am negotiating with a partner, I don't just sit in the room, look at them for a while, and then think spontaneously, 'Oh, OK, I'll drop my price 10%'. I talk to them to

understand what price they are aiming for. If that price is lower than my current estimate for the work to be done, I try to find out more about their needs for the project and why their price expectation is lower than mine. I also try to determine where I might be able to reduce my workload through increased efficiencies or shifting priorities in order to achieve a reduced price while still giving them what they need most from me and without risking a loss of quality. We discuss the scope and conditions of the project, how they picture it running and how we think it could be done. I will explain to the buyer my rationale for the resources I have proposed and not only will they come away with a better understanding of what our price is built on, they will also have an opportunity to actively input on which resources they will get in the package they purchase. Importantly, the negotiation will also provide an opportunity for both sides to assess those moving-target aspects of a project that cannot easily be described in a specification.

Together, both sides will construct a package that everyone feels is appropriate and effective for the project at hand. All of this is in fact the definition of negotiation: the reaching of agreement through discussion and compromise. The use of reverse auctions is thus not a negotiation. It is an audacious request for suppliers to reduce their prices without any good reason other than the fear that if they do not, they may not get the job. It also somehow implies the pricing the suppliers have provided is not a realistic reflection of the inherent value of the service to be provided (since if it were, obviously they could not afford to reduce it or they would be working at a loss). Since a reverse auction is not a negotiation in any shape or form, it therefore cannot actually reduce the time needed for negotiation because that is a separate activity.

Of course, the key argument for reverse auctions is the overall reduction in cost that will be obtained for the services purchased. However, some have raised the question of whether companies are really looking at the full equation.⁹ The reverse auction process is also associated with a cost. Not only must the software be purchased and developed and maintained for the buyer's needs, but additional management time must be invested into the process. Is the cost of this really less than what is being shaved off from the price for the services? This becomes particularly relevant if you factor in the risk that suppliers may undercut their desired price to get the bid, knowing well that they will find a way to recoup those costs through change orders during the course of the project – at a point when the buyer may not be in a position to reinitiate the

procurement process to switch suppliers. So the savings are on paper in the beginning only, but if the entire project lifecycle is put into the equation, the added cost of the reverse auction may rarely be compensated for by a true reduction in cost for the services.

Let's be honest. Squeezing suppliers on price means they will squeeze on the service. It's a simple zero sum equation and expecting anything different is naïve. Suppliers of medical writing services have small cost/profit ratios. If you want them to charge you less they have to provide less service in some form. If they don't they will go out of business. Less service need not mean that what is provided is deficient as such, but due to aspects being overseen as a result of not having conducted any negotiations, it may later on prove insufficient in the broader context of the clinical programme as a whole, and may involve additional expense later on. How can that be in anyone's interest and how can it be a means to ensure a buyer is getting the appropriate volume and level of expertise for the service they are purchasing?

Is it really an ideal solution to select a strategic partner for this type of complex intellectual activity the same way you purchase a kilogram of sodium chloride? If we stay with the example of medical writing, one needs to consider that medical writers will produce the documents that will ultimately carry the full burden of explaining to the authorities whether or not your new product has a suitable and beneficial risk-benefit profile. Medical writers will also assist the buyer's teams to effectively communicate why it is worth awarding marketing approval, securing the buyer's stream of future income. While sodium chloride might be the same from any supplier as long as it meets a certain composition and quality, medical writing services are not all created equal, if for no other reason than that there is a large human element involved in providing the services and the way people work is inherently variable. It can be very difficult to assess if a provider has the ability to craft a well-structured document that communicates clear messages or if their writers have the skills to corral their clinical teams to provide comments on time and have meaningful, effective review processes. Certainly, it is simplistic to think that all clinical documents are equally good. That is why clinical teams prefer to build on a long-term relationship based upon experience and track record rather than price alone. Yet, that is precisely what reverse auctions presume: tell the suppliers to bid on a medium complexity document (often poorly defined due to the inherent complexities of the scope specification)

and price will tease them apart. Where is the assessment of skill and experience in this equation?

We have sat and watched other medical writing companies in a reverse auction drop their prices until their price had reduced to a fraction of the price we bid. Now, it is important to understand that while we participate in reverse auctions in theory, because they are becoming more frequent parts of RFI (request for information) processes, on principle we never reduce our bids from the opening bid. The price we come in with is the price we derived based on our realistic assessment of the scope indicated by the client, based on our many years of experience with similar types of projects. We believe the prices we prepare are accurate, and this has been corroborated by over 12 years of experience demonstrating that on average, our bids and our costs are within 5% of each other. So unless we are given further information that would lead us to believe our bid is no longer appropriate, we see no logical reason to reduce it during a reverse auction. But you have to wonder what learning a buyer gets out of an auction in which one company ends with a price that is substantially lower than that of another company's price for what is supposed to be the identical product. Such a massive discrepancy can only be because either the supplier companies have a completely different understanding of the scope of the project (due to poor specifications), or they have a completely different understanding of what is needed for the same scope (due to different levels of experience). In either case, these bids are not comparable. And it would be folly to think that the low bidder is likely to provide the same degree of service as the high bidder.

Which leads us to ask what exactly the reverse auction brings to the table in terms of useful information to distinguish between companies supplying complex, strategic services in the field of clinical research. The buyers we have talked to emphasise that the reverse auction only provides one part of the equation. Beyond price, there is information on the suppliers' experience and expertise, and the buyers will use that information to distinguish between the suppliers. If that is the case, having just established that the pricing information obtained from the reverse auction is not helpful when comparing complex services that are difficult to define, and that it does not reduce or even replace the task of negotiating the price with the suppliers, then we can only wonder why supplier companies are being made to perform an activity that is ineffective and time-consuming at best and demeaning at worst. How about if buyers simply compare the

starting bids provided, combine this knowledge with the information they have obtained based on experience and expertise, short-list two or three companies, and then have a true and meaningful negotiation with those to select the best fit for the buyer's needs? Now that would be a process that everyone could benefit from, which would truly save time (by removing the time needed to prepare for and perform the reverse auctions) and money (by removing the cost of the software, management, and maintenance of the reverse auction systems) (Box 1).

Box 1: Products and services for which reverse auctions are appropriate

- Goods with low complexity that are easily understood by both buyers and suppliers
- Bulk items and goods that are manufactured based upon an agreed upon standard
- Items that are non-strategic in nature
- Purchases that feature little collaboration
- Goods with little variance among supplier capabilities
- Goods for which there is a sufficient number of suppliers with the capacity to deliver or provide the service

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