

The Budget

To Share or Not to Share? That is the Question!

Share Your Budget!!!

If your project has a budget, share it! Once again...Share your budget! Put it right into the RFP/solicitation. Not a budget range or approximation, but the actual amount of money you have that you can actually spend. No tricks, no hidden contingency, but the actual number, raw and exposed. Let the vendors know how much money you have.

You are probably thinking: ***“Share my budget? That is crazy! If we share our budget, vendors will artificially raise their prices to meet my budget. They’ll turn my money into their profit!”***

Not Enough Money

How often is your budget greater than your scope, or **how often do you have more money than you need?** For most organizations, the answer is almost “never”. When your budget is “tight”, and you may NOT have enough money for your scope, you’re asking vendors to deliver more scope than you can afford.

You may be thinking: *“If we don’t share our budget, we won’t have to worry about price gouging from vendors”*. But if you don’t have enough money to begin with, this potential advantage doesn’t really exist. Consider the following:

Problem #1: The budget is commonly the single biggest risk to the project. If it is not shared, your high performing vendors cannot use their expertise to help you minimize your biggest risk.

Problem #2: It gives low performers an advantage. A low performer’s only competitive advantage is that they’re cheap (initially). Taking the biggest risk out of consideration in your evaluations makes it more difficult for high performers to differentiate

themselves and easier for lower performers to look more attractive. A “good deal” may just be the beginning of problems on your project.

Problem #3: If the vendor prices come in too high, it causes frustration, the blame-game, or even the potential of canceling the project. It can lead to inappropriate scope shaving, “value-engineering,” and aggressive negotiating. These all cause inefficiency and waste additional time & effort.

If you share your budget:

Advantage #1: High performing vendors can use their expertise to help you minimize your budget risk within their proposals. This may come in the form of cost-saving ideas, innovative scope alternatives, etc. It makes the proposals more valuable & your interviews more productive.

Advantage #2: It is easier for high performers to differentiate themselves in your evaluation process. Only those vendors can use their expertise to provide cost-savings and value-adding innovations. Also, any such ideas that are contained within a proposal will inherently need to be specific to your project. Thus, it even helps minimize the boilerplate nature of many proposals.

Advantage #3: It helps the vendors better understand the intent of your scope and purpose. A scope with a budget not only defines the needs and desires of the client, but does so within the framework of their constraints and resources.

Advantage #4: If your evaluations are set up properly, vendors can explain, in detail, why your budget and their estimated pricing are different. Often we have seen where client project teams are under pressure to

make a project happen, even when the project team feels the budget is inadequate. They try to convince their superiors that the budget is wrong, but often to no avail. The procurement process can be used to help clarify reality and provide the project team more, and better, cost information that can be used in discussions with supervisors and executives. In our experience, there are more advantages to sharing the budget than not.

Too Much Money

In the rare instance that you have more money than you actually need (your budget exceeds the value of the scope of work), then “price gouging” is now at least an actual possibility. Fortunately for you, all it takes is just one honest vendor to submit a fair and realistic price to negate ALL potential price gouging of the other vendors. Vendors understand this, which is what keeps many of them honest. In a competitive environment, vendors are usually looking to gain evaluation points everywhere they can, which means a lower price. Moreover, price is generally a heavily weighted selection criteria. In our experience, and within the right process, it is optimal to share your

budget 100% of the time. From our research with have not found any evidence to support that vendors inflate their pricing to match the budget. In fact, we have found that in the majority of cases, vendors have proposed significantly below the stated budget.

Number of Projects Issued With Budgets: 248
Total Budget = \$222 Million
Awarded Cost = \$107 Million **(-52%)**

The Reality

Doing things the way you have always done them – just because that is the way things have always been done – may not improve the current level of performance you are receiving. There is no real risk in sharing your budget. Only perceived risk. Based on research results, we recommend to always share your budget. Sharing your budget will attract higher quality vendors. Let the vendors know how much money you have...but of course, you have to do this in the right way, with the right procurement process, and with the right training for both your project team AND especially the proposing vendors.

To learn more about budgets, estimates, or ranges, contact the Simplar Institute.