

The Project Budget To Share or Not to Share?



Our recommendation:

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

...but of course, you have to do this in the right way, and with the right process, and with the right education for you and the proposing vendors. Nevertheless, you may be thinking right now: “Share my budget? That is crazy!” Let us explain:

First, some context:

The initial big fear most client organizations have in sharing their budget is that vendors will artificially raise their prices to meet the budget and turn your money into their profit. First question to ask then is, “How often do I have more money than I need? How often is my budget bigger than my scope?”

For most organizations we have worked with, the answer is approximately equal to Never. But it happens sometimes, so let’s say that on 5% of your projects your budget isn’t “tight.” So that leaves 95% of your projects where you don’t have more money than you need and your budget and scope are tight or misaligned, with you asking for, or needing more than you might be able to afford. Let’s start with the 95% and then discuss the 5%.

The 95% of Projects

For those times, when the budget is tight, let’s look at each option: 1) Don’t share the budget with the proponents; and 2) Share the budget with the proponents.

Option 1 – Don’t Share the Budget.

Advantage: If we don’t share the budget, the advantage is we don’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 exist.

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

Problem #2: It gives low performers more of an advantage in your selection process. A low performer’s only competitive advantage is that they are cheap in their initial pricing. Taking the biggest risk out of consideration in your selection process 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 prices come in too high, it causes frustration, the desire to assign blame, the potential of canceling the project, etc. It can lead to inappropriate scope shaving, “value-engineering”, and aggressive negotiating and leveraging. These all cause inefficiency, additional time and effort, and waste.

Option 2 – Share the Budget.

Problem: If you share your budget, and you have more money than you need, vendors may raise their prices up to your budget. But if 95% of the time you are tight on money, then this risk is imaginary and not a possibility.

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

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Advantage #2: It is easier for high performers to differentiate themselves in your selection process. Only those vendor teams with expertise can provide cost savings and value adding innovations. Also, any ideas that are contained within a proposal will have to be specific to your project. Thus, it even helps minimize the generic nature of many proposals.

Advantage #3: It helps the proponents better understand the intent of your scope and purpose. A scope with a budget defines the needs and desires of the client but does so within the framework of their constraints and resources.

Advantage #4: If set up properly, proponents 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 proposal 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...at least 95% of the time...

The 5% of Projects

If you share your budget and you do have more money than you need, then price gouging is now at least an actual possibility. The good thing is that it just takes one. It just takes one of the proponents to submit a fair and realistic price to negate all of the potential price gouging of the other vendors. Vendors know this and rarely artificially raise their prices based upon a client's budget. They are more likely to raise prices based upon risk and how badly they need the work.

Moreover, price is still heavily weighted in our recommended selection with all the cost controls and protections in place. So you will never get "burned" on price if you run the right process. So, in our experience, and within the right process it is optimal to share your budget 100% of the time.

The Reality

There is no real risk in sharing your budget, only perceived risk. We recommend always sharing your project budget, if you have one. And if your project doesn't have a budget, there is typically at least some expectation of cost, that if a price is above, then politically the project may be problematic.

The fear that vendors will raise their prices if you give them your budget just isn't a real possibility. Your real fear in sharing your budget should be around this question: "Is my budget so far off from reality that I am scaring away the best vendors? The types of vendors that have enough expertise to know that sometimes, it just isn't worth pursuing a project with a client that far off base."

In this, and every situation, the criticality of education, the right process, and the right approach are manifest. Doing things the way you have always done them just because that is the way they have always been done will not optimize your purchasing practices; however, becoming a client of choice will. Sharing your budget, in the right way, is one thing good clients do. To learn how, contact us at:

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