The Budget

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

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 actually 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 procurement process, and with the right training for both your project team AND especially the proposing vendors.

Nevertheless, you may be thinking right now: "Share my budget? That's crazy talk!" Let us explain.

First, some context:
Initially, the big fear most clients have in sharing their budget is: "Won't vendors artificially raise their prices to meet my budget? They'll turn my money into their profit!" But first ask yourself this: ***"How often do I have more money than I need? How often is my budget bigger than my scope?"***

For most organizations we've worked with, the answer is approximately equal to Never. But it does happen 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 DO NOT have more money than your scope… which means 95% of the time your budget is tight and you're are asking vendors for more scope than you may 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 both options:

Option 1 – Don't Share the Budget.
Advantage: 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 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 prices come in too high, it causes frustration, the blame-game, the potential of canceling the project, etc. It can lead to inappropriate scope shaving, "value-engineering," and aggressive negotiating. These all cause inefficiency and waste additional time & effort.

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 not a possibility… it is largely imaginary.

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 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 evaluation 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 other 5% of Projects

If you share your budget and you do have more money than you need, then price gouge is now at least an actual possibility. The good thing is that it just takes one honest vendor. In other words, it only takes one vendor to submit a fair and realistic price to negate ALL potential price gouging of 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 perceived risk and how badly their company needs the work.

Vendors are usually looking to gain evaluation points everywhere they can, which means a lower price. Moreover, price is still heavily weighted in our recommended selection process with additional cost controls and protections in place. So you will never get "burned" on price if you run the right procurement process. 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. And if your project doesn't have a budget, there is typically some expectation of cost, where if prices are above this expectation then the project may be politically problematic.

The fear that vendors will raise their prices if you give them your budget just isn't a real possibility. Your real concern 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."*

The proper training and the right procurement process are critical. Doing things the way you have always done them – just because that is the way things have always been done – will not optimize your project. However, presenting yourself as a *"Client of Choice"* to your vendors will. Sharing your budget, in the right way, is one thing that a good client does. To learn how, contact us at:

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