



Playing budget hide and seek

by Michael Asner

Vendors tell me that lack of budget information in Requests for Proposals (RFPs) irks them. They think that this omission is a barrier to developing an excellent proposal and I agree.

Most organizations will issue RFPs without a statement such as: We anticipate that the contract resulting from this procurement will be in the range of \$100,000 to \$135,000.

This lack of information wastes everyone's time and money. In some public agencies, 50 percent of the proposals received in a year will be outside the budgetary range. This is not an isolated problem in provinces and states, cities and towns throughout North America. But, it's a problem with several solutions.

Whenever suppliers respond to an RFP, they must deal with the budget issue. What is the agency prepared to spend? What if my solution is more than their budget? Are they looking for a Cadillac or a Volkswagen? For most problems, there is more than one solution – some are expensive, others, cheap. An RFP can attract a wide variety of proposed solutions – everything from a least-cost approach, which may deliver only the essential elements, to the complete solution that deals with all requirements both now and in the foreseeable future. From the vendors' perspective, lack of information within the RFP about the budget is a huge problem. Vendors want and need direction.

There are a limited number of ways for a vendor to determine the budget.

1. Public agencies can tell the vendor the amount by stating it in the RFP.

Many agencies object to this believing that if vendors know that the budget is \$100,000, then all of the proposals will be for this amount. This only occurs if vendors collude, if the minimum solution is truly \$100,000, or if there is a lack of competition in a particular market.

Sometimes agencies don't publish the budget because they don't have any idea of the range of solutions that will be proposed. They wait until they get proposals to see what a realistic budget should be. This approach has several flaws – the main one being that all the proposals may exceed the anticipated budget and, therefore, be unacceptable. A long time ago, Management Board of Cabinet in Ontario published a directive to management stating that if all the proposals are over budget, "we must question the competence" of the people who prepared the RFP!

If the agency cannot develop the budget, it could: hire a consultant to do a scoping study; invite vendors in for a briefing on the problem and potential solutions; issue a Request for Information with enough details to support some estimates; or contact other agencies that have issued similar RFPs, and ask them about the types of solutions and the associated costs.

2. Public agencies can put language in the RFP that permits vendors to accurately estimate the budget.

Many agencies aren't comfortable publishing the actual budget, but they could give the vendors some clues to do a reasonable estimate. Describing a problem and asking for a comprehensive, long-term, complete solution will, by its very nature, attract high-end proposals. Describing the same problem, but using language such as "we are seeking a low cost interim solution which will last for the next two years while we develop our strategic plans" will attract a different type of proposal.

Stating the budget or describing the solution accurately, will have two effects. Those vendors submitting proposals will likely be within the budgetary range and other vendors, after reviewing the information, will decide that they cannot deliver a solid solution for the money available and they will not respond to the RFP.

3. The RFP can state the weighting factor associated with "cost" and the process for assigning points to "cost" in the evaluation process.

Each response to an RFP is a business expense for vendors. They want to write a proposal that meets the client requirements and reduces their risk of not being selected. Vendors need accurate information and to know how the agency is going to evaluate cost. Clearly, an RFP evaluation that assigns 90 percent to cost and 10 percent to the technical solution tells the vendors that cost is overwhelmingly important. In the absence of any other information, most vendors would then propose a least-cost solution. If, however, cost is assigned 10 percent, then the vendors would most likely propose a different solution.

Vendors also look at the way cost is used in the evaluation. If the award will be made to the proposal with the highest number of points, and cost is only worth 10 percent, then vendors may propose an expensive, but very solid technical solution. If vendors are told that the technical parts of the proposal will be evaluated first to eliminate those with less than 70 percent of the points, then each serious vendor will propose a solid technical solution. If vendors are then told that the winner will have the least cost proposal as well as at least 70 percent of the technical points, then each vendor will not only provide a solid technical proposal, but one which the vendor believes contains good value.

Lack of budget related information could cause vendors to develop inappropriate solutions and create major problems in the buyers' organization when all or most of the proposals exceed the anticipated budget.

In my opinion, both vendors and public agencies would be better served if we stopped playing "hide and seek" with budgets. *MA*

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