

Costs, Managing Expectations, and Value Delivered: tackling budget problems with internal market economics

N. Dean Meyer

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You *don't* need to promise the impossible, like "do more with less."

You *don't* need to accept customer expectations far beyond what your resources can deliver.

You *don't* need to live with a lack of executive perception of the value you deliver.

You *don't* need to tolerate vague accusations that you cost too much, or unfair comparisons to outsourcing or benchmarks.

You *don't* need to engender mistrust for lack of cost transparency.

You *don't* need to get dragged into political debates over cost allocations.

You *don't* need to hold your breath and pray for year-end money to fund critical infrastructure and innovation investments.

And you *don't* need to design bureaucratic chargebacks or complex governance processes to solve these problems.

All these challenges are created by traditional financial processes. As the old paradigm goes, you get a budget to cover your costs. You're expected to manage your own resources, perhaps with input from your internal business clients on priorities. Meanwhile, to your clients, everything appears free. And when price is zero, what happens to demand? Basic economics tells you this cannot work.

The solution is found in thinking of your job, and your budget, in a different way....

Consider your organization as a business within a business. Its purpose is to serve customers – be they within your immediate organization, elsewhere in the enterprise, or external customers – with your products and services.

From this perspective, there's a science that explains how to solve your resource-governance challenges: *economics*. With or without money actually changing hands (chargebacks), the application of market economics inside organizations has profound impacts on the way you handle your budget.

Think of this: As a business, nobody gives you money to pay your costs. People give you money to buy your products and services.

So think of your budget as an escrow – money put on deposit with you at the beginning of the year to pay for your products and services throughout the year.

A common real-life example is your mortgage escrow. You pay money into escrow each month. Then, when you get an invoice for property tax or homeowners insurance, you pay using the money in your escrow.

When you think of your budget this way, resource-governance processes fall into place....

Your budget (the escrow account) creates a “checkbook” that belongs to the enterprise. So your customers must decide what “checks to write.” You don’t need a steering committee to micromanage you. The purser’s only purpose is managing that checkbook.

Of course, all your products and services have a true, full cost to the enterprise. Sure, you may get more efficient over time; but at any point in time, things cost what they cost. There is no “do more with less.” The checkbook only pays for so much.

Your customers manage demand within the finite limits of their checkbook (your budget, which equates to your resources). If they want more than they can afford, customers must find more money to buy more – whether that takes the form of a budget increase or the transfer of money (chargebacks). As a result, customers’ expectations match your resources.

Furthermore, everybody understands the value you deliver for a given level of budget. That perception of value counters many of the complaints that you cost too much.

Of course, this demand-management process is predicated on knowing the costs of your products and services. Your rates becomes a basis for like-to-like comparisons with outsourcing and benchmarks.

With a transparent cost model, you build trust. You can base any allocations on utilization. And you can build into your rates any necessary sustenance activities like training, process improvements, and innovation.

Learn more about how to apply market economics inside your organization [here](#).

Dean Meyer is the author of [Internal Market Economics](#), as well as six other books on organizational design. He’s a consultant, speaker, and executive coach on how to implement the business-within-a-business paradigm. More at [ndma.com](#).