

# Total Cost of Ownership (TCO)

**Total cost of ownership.** TCO) is a management concept using an estimate of all the direct, indirect & **long term** costs that can reasonably be anticipated when purchasing a product, system or service.

**TCO = Acquisition cost + Other Direct Costs + Indirect Costs (business-process changes, strategic significance, etc.)**

Common examples where the TCO is significant and often considered before making a purchase

1. Printers and copying machines + [TCO printer cartridges and ink costs vs output]
2. Automobiles + [TCO mileage and maintenance costs]
3. ERP and Procurement Software + [TCO implementation, subscription, technical support]
4. Smartphones + [TCO calling plan data costs]
5. Refrigerators & Appliances + [TCO energy consumption (Energy Star Rating)]
6. Major Machine tools + [TCO expected productivity improvements vs maintenance]

***“I consider more than just the selling price - and seek all opportunities to negotiate a better deal for my organization’s long term benefit....”***

**Acquisition Costs** = Acquisition/Physical Hardware costs include the cost of equipment, property, services.

Can include one-time peripheral equipment, installation or utilization of the asset.

**Operating Costs** = Operating costs include subscriptions or services needed to put the item into business use.

Can include utility costs, direct operator labor, training, maintenance, supplies

**Business Costs** = Administrative staffing, support personnel to the equipment, facility housing the equipment and operators.

Could include ongoing training, specialized labor for maintenance purposes, hazardous materials, decommissioning, replacement

**Accounting Contributions** = Incremental savings or revenue flows created by the capital investment.

Could include depreciation opportunity as well as residual (resale) value, productivity improvement...

## How can we use TCO estimates when negotiating an acquisition?

- a. Differentiate offers & products
- b. Negotiation Leverage
- c. Obtain reductions & discounts
- d. Write a more complete & valuable contract
- e. Mitigate TCO costs
- f. Plan future acquisitions and replacements
- g. Plan accounting system savings

## TCO Negotiation Opportunity Exercise

Use a chart or checklist when planning an acquisition of products, equipment or services. Add relevant negotiation elements and ensure all significant elements are evaluated, mitigated, avoided or considered before making a final purchase decision and included in a comprehensive contract.

> = Items I can influence in negotiation   \* = Supplier/product differentiators   ① = Significant items to include in contract

Seller's Price		Acquisition Costs		Ownership Costs		Business Impact
\$\$\$	+	\$\$\$	+	\$\$\$	+	\$\$\$
1 Competition		8 Freight		13 Spare Parts		22 Longevity & replacement
2 Timing		9 Packaging		14 Maintenance		23 Dependencies
3 Payment/Financing		10 startup		15 Training operators and maintenance staff		24 Future enhancements
4 Fair Profit		11 Risk of Loss		16 Supplies		25 Repurchase
5 Contract Terms & conditions		12 Setup		17 Warranty		26 Records & data
6 Termination & cancellation				18 Tooling		
7 Intellectual property rights				19 Scrap & wastes		
				20 Performance specs.		
				21 Staffing & admin.		

**IMO: The worst result of a purchase negotiation is an incomplete contract – which does not consider and address potential pitfalls, costs and relevant elements of the acquisition. - Mt**