

Best Value Toolkit TCO Exercise Introduction

To further demonstrate the decision support value of performing Total Cost of Ownership (TCO) analysis, we have created a simple exercise that can be performed in class or in a self-study environment.

The Excel Workbook entitled “[Best Value TCO Exercise](#)” is included in the Best Value Toolkit Library (as is this Introduction). Open the workbook to begin the TCO Analytic Exercise, using the following tips to help you with the work:

- 1) The worksheet you will open to is titled “**Offer Terms**”, and provides side by side comparison of two example offers (from a COTS Software Publisher or possibly from two resellers of the Publisher) to meet the exact same requirement.

Common requirements include (all at list price)

- a) \$14M initial (Year 1) software license fees
- b) \$4M additional license fees for Year 2
- c) 1st Year Support (@ 18% of List License Fees) of \$2.52M
- d) Annual Education spending of \$50K
- e) Annual Consulting spending of \$250K
- f) Hardware (Year 1 only) spending of \$50K
- g) Annual Hardware Maintenance of \$10K
- h) Misc. Vendor Services (Year 1 Only) of \$100K

Applied to these common requirements, are varying discounts, Maintenance escalation, and Terms and Conditions. It is the financial analysis of these varying elements (discounts, escalation, Ts and Cs, etc.), based on TCO Analysis, that helps you determine which offer provides “Best Value”

- 2) The next two worksheets in the workbook are titled “**Work Copy TCO Offer #1**” and “**Work Copy TCO Offer #2**”, respectively. These are the sheets where you input data from each offer, in the **Yellow Shaded** areas. Each area that is shaded yellow must receive an input, even if you believe the input is zero (hint – it is never zero), Remember to treat each cost in the offer as a one-time cost (non-recurring) and or as an annual, recurring cost. Use formulas as necessary, especially for escalation.

You will notice the first three worksheets in the Workbook have the worksheet tab shaded in yellow. This is the code that these worksheets are where you should gather data and actually input your answers. The worksheets shaded in green represent the answer key, provided for your reference. There is a worksheet between the Exercise sheets and the Answer Sheets entitled “Notice”, also in green shading. This is to remind the user that answers are to the right of this notice, and to not accidentally go to the answers until that is what is desired.

- 3) The final two worksheets in the workbook are titled “Answer Key TCO Offer #1” and “Answer Key TCO Offer #2”, respectively. These provide the results you should derive at the completion of the exercise.

Notice that one offer provides a much cheaper initial expenditure, but the other offer provides better TCO results and better Terms and Conditions

- 4) As a final part of this exercise, please consider (or discuss if you are in a classroom or group setting) the following three sets of questions:
 - a) Which offer provided less expensive TCO. Why?
 - b) Under what operational scenarios might Offer 1 provide better TCO? What factors (if changed) would alter the results?
 - c) What are some of the potential impacts on the different Ts and Cs? What costs may be incurred or avoided due to the Ts and Cs? What operational impacts might be experienced due to different Ts and Cs? Do you think you could model the financial impact of potential Ts and Cs issues using the TCO methodology?