
Total Cost of Ownership
Document Number: TA-01032007

Prepared For

General Release

March 1, 2007

Prepared by

**Dan Kettwich – VP of Business Development
Tariff Affiliates, Inc.**

Thank you for demonstrating a willingness to review our whitepaper
Please contact me with any questions.

Dan Kettwich
Tariff Affiliates, Inc.
50 Victor Heights Parkway
Victor, NY 14564
dkettwich@tariffaffiliates.com
(866) 372-8381 ext 702

Increased Shareholder Value through Disciplined, Relentless Elimination of Waste

Identify Waste - Realize hard cost savings and Eliminate activity that adds no value
Recognize Value - Increase Return on Invested Capital and Earnings per Share
Discover Rapid Results - Analyze empirical data and Produce meaningful reports
Implement Policy Management - Manage workflow and accountability

Corporations are routinely trying to sharpen their focus on main line of business and reduce costs that are not outside their main line. One of the more frequent considerations when reducing costs is to consider Business Process Outsourcing (BPO). This direction is often extremely advantageous in reducing both hard costs and soft costs. However, a thorough analysis of the impacts to the business needs to be conducted.

This thorough analysis needs to include a financial analysis. A great analysis tool is Total Cost of Ownership (TCO). TCO is a calculation designed to help determine direct and indirect costs as well as the associated benefits relating to the purchase of a product or service. The value of purchasing a product or service is identified by weighing the effective cost associated with the purchase against improvements to the current state.

The Gartner Group is given credit for developing the TCO term, and there are many different methods and tools utilized to calculate TCO. The fully burdened cost of the product or service must be taken into consideration if an accurate result is expected. The initial costs, setup fees, original purchase price, licensing fees, ongoing monthly reoccurring costs, maintenance, upgrade costs, training costs, even the soft costs associated with supporting the initiative, like security, utilities and full-time employees must be evaluated.

Once the TCO is calculated, the Total Benefits of Ownership (TBO) must be understood in order to determine the viability of the product or service purchase. Some tough questions must be asked - What is the hope of gain, or the fear of loss? How will the current state be improved or maybe more importantly what will happen if nothing is done...

As companies continue to look for ways to reduce costs and improve the bottom line, more and more alternative solutions need to be considered. Recently, companies have looked to outsource IT related initiatives - from software development, to data center services and maintenance. These outsourced initiatives have proven to increase business efficiency by decreasing complexity and cost. High cost levels and finding qualified personnel have driven these decisions to outsource.

Change is ever present. Business Process Outsourcing (BPO) helps clients cut costs and focus on core strengths. BPO reduces complexity, improves speed and will increase quality.

When considering the BPO decision, one need to understand there are various levels of outsourcing, which are measured by degrees of control.

Monitor and Report – Tell me what is happening
Full Management – Run the operation for me
Full Outsource – Own the operation for me

So, what's the message? When considering the need to reduce costs look to the BPO option. In the analysis phase, get educated about the methods for analyzing the costs and benefits. Consider both hard and soft cost impacts. The TCO methodology provides an excellent process for a thorough cost and benefit view.

Understanding how TBO and BPO relate will help reveal the Total Cost of Ownership. This is not cost reduction - it is a fundamental change in how work is completed. Statistics reveal that up to 50 percent of the work involved to provide a product or service offers no value to the end client. Get educated and work towards a stronger financial statement.