Total Cost of Ownership

Business leaders today are expected to do more with less. Cost-cutting and belt-tightening are a way of life. Capital budgets are being scrutinised like never before.

IT spending—a major expense for most organisations—is under particular pressure. When new technology projects or upgrades are proposed, a growing number of companies require total cost of ownership (TCO) assessments. It is no longer enough to look at just upfront costs associated with an IT project; savvy leaders recognise they need to understand the entire cost over the life of the project.

At its most basic, a TCO review helps IT managers assess both direct and indirect costs of an IT solution, as well as the benefits. The goal is to develop a final figure that reflects the full effective cost, all things considered.

Acquisition and procurement

While comparing the cost of different IT equipment can appear to be a relatively simple task, there are frequently less obvious costs unrelated to the initial purchase price which can influence your decision. Often, equipment acquisition costs are viewed as the lion share of an investment. This expense, however, represents a relatively low percentage of the overall investment, typically accounting for less than 30 per cent of the true cost.

Operations and maintenance

A TCO review also helps answer questions about ongoing operations and maintenance by addressing cost consideration such as operations staff, maintenance, support contracts, electricity, cooling and space. The objective is to give you a comprehensive evaluation across the business, allowing you to select a solution that brings you the greatest return on your investment.

Older equipment and end-of-life management
It's tempting to assume that coaxing additional months of service from older IT equipment saves money. Often this is not the case. In fact, holding onto IT assets for too long can lead to significant additional expense in a number of areas including unscheduled downtime, increased maintenance and lost productivity. Older equipment may also limit your ability to quickly upgrade as business demands change. These challenges ultimately affect customer satisfaction and your bottom line. Alternatively, replacing equipment on programmed schedule can improve overall utilisation of resources and also lower associated costs, such as energy consumption.

Disposal costs and potential salvage value also needs to be considered. Storage and removal, data security and environmental regulations are all factors that can be overlooked without TCO.

Quantifying the costs
Industry analysts agree that only 30% of companies' IT expenses are hardware-related. The other 70% encompass costs that are harder to quantify—items like support (including labour), maintenance, energy and disposal fees. Only when companies take a comprehensive look at all the components of an IT solution can they begin to understand their total costs—and make decisions that reduce the impact to their bottom lines.

Leasing provides an answer
Companies that take a total cost of ownership approach to IT acquisition often turn to leasing as a means of refreshing equipment and reducing costs. HP Financial Services specialises in helping customers' implement a life-cycle approach to IT—gaining efficiencies and capabilities while keeping the lid on cost.

Our knowledgeable professionals will work with you to evaluate ways to improve the TCO for your next IT solution. We're part of HP, one of the world's leading IT companies, and we understand IT. We offer financial solutions designed to help you manage to the lowest TCO—from planning and acquiring technology all the way to replacing and retiring it.

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