



Why is Whole Life Cost Analysis Important in ANY Organization?

What is whole life cost analysis and how can this impact your projects, products and services, and organization?

The best place to start is the meaning. It is the total cost of owning an asset over its entire life. This includes areas such as depreciation cost, operations cost, building costs, design costs, finance costs, disposal costs, social costs, environmental / sustainable costs, quality costs, and much more.

Identify Cost Areas

As we conduct the Request for Proposal (RFP) / Tender process for each project, product, and service, it is especially important to identify these areas that influence overall cost. Therefore, the information you gather from your client is important but not as vital as ensuring you heard the information correctly and can outline the needed product, service, or project in written format so that others can understand the specifications.

We would recommend you establish some type of format for whole life cost analysis cost areas as outlined above. This could be done in your Standard Operating Procedures (SOPs) in table format or some other form.

Project Area Examples

An example project for a project for simplicity's sake could be computers. If we conduct an RFP based solely on cost, without our defined best value, specifications, needs, warranty, customer service, support, and other areas, even though a final supplier of the lowest cost looks the best, they may not be. The lowest cost computer manufacturer may have:

- A one-year warranty.
- No support.
- No customer services.
- Lack of technical support.
- The manufacture's history shows a rapid depreciation (use).
- Other areas that should be evaluated (there can be hundreds).

In the final analysis, if we outline all cost areas, we might find that the third supplier finalist is should be awarded the contract based on "Whole Life Cost Analysis".



Analysis Details Form

Below are details of an outline that will provide you with an example, as seen in the table, for your analysis with projects, product RFPs, and service RFP's. Each table will be different based on each need.

You will categorize the area, importance from lowest to highest, and cost amount.

- Warranty Cost – What is the cost to only have one year compared to a longer warranty?
- References / History – What is their track record?
- Supply Chain Disruption – What is the impact and cost if they cannot supply your organization?
- Disaster Recovery – What will happen if the supplier loses data that is critical to your organizations need and clients?
- Customer Service – Is it necessary to have 24-hour service or not? How does this affect you if needed?
- Scalable to Company Growth – What is the cost if they cannot grow with your organization, and you need to source other suppliers?
- Supplier Staff Retention – Does the Supplier have high turnover? What does this cost your organization if they have to hire new people that serve your organization?
- Right to Audit – How does this work in with price, accountability, contract performance, products manufactured at the supplier's facilities, etc.?
- Technical Support – How critical is this if your equipment that keeps operations and production going at your plants?
- Green / Sustainable – How does this match your plan and how important is this to your overall plan, retention, and core competencies?
- ISO – Is this important to the functionality and quality of the product you offer your clients?
- Depreciation Cost?
- Operations Cost – How much will the piece of equipment cost to run with maintenance, energy usage, down time, etc.?
- Building Cost – How much will the overall costs and maintenance costs come to for the building? Facility, plant, office, being built? What will the annual maintenance costs (energy, green, HVAC, etc.) be?
- Cost to Your Client – Will there be great risk for returns of your product that has been manufactured that is supplied to your organizations end user? What will this cost?
- Design Cost?
- Finance Cost?
- Disposal Cost?



- Social Cost?
- Green Cost?
- Quality Cost?
- _____?

It is vital to conduct whole life cost analysis in many projects and transactions, whether business or personal.

What you do not know can cause serious financial problems or even cause an organization to cease!

What is your whole life cost analysis plan and process?

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