

Developed in partnership with:



PennState
Smeal College of Business



ANALYZING COSTS USING TCO

Using the Total Cost of Ownership Approach to Identify and Reduce Costs

Every dollar an organization takes out of its costs is a dollar that goes directly to its bottom line -- the organization's profitability. Costs can be challenging to pin down because they are continually impacted by factors such as labor and raw material prices, as well as macroeconomic conditions like tariffs, currency exchange rates, regulations and more.

In this course, participants use the Total Cost of Ownership TCO framework to identify a cost analysis project that has the potential to return significant value. They'll learn how to evaluate possible projects, assemble a cross-functional TCO project team, and map process activities to find cost areas requiring analysis.

Participants will learn how to:

- calculate Total Landed Cost, with consideration for tariffs, countervailing duties, and more
- use TCO methods to conduct competitive bid analysis, including global sourcing contracts
- create a cost database
- estimate costs by applying the 3As – Actual, Approximate, and Assumption

The course also explores the value of working closely with suppliers to develop should cost models in order to better understand pricing strategies and improve how the organization negotiates with its suppliers. *Analyzing Costs Using Total Cost of Ownership* offers an important set of tools for creating competitive advantages.

OUTCOMES

- Understand basic financial principals involved in calculating TCO components
- Learn how to identify TCO projects that have the greatest potential to impact the company's bottom line
- Use the 3As - Actual, Approximate and Assumption - to model costs when faced with imperfect data
- Learn how to create and manage a useful cost database

YOU WILL

- Identify and measure Total Cost of Ownership (TCO) components for a project that will deliver value to the business
- Structure a TCO calculation model for a selected class of products or services
- Develop should cost models to gain greater transparency into supplier pricing

ABOUT THE EXPERT

ROB HANDFIELD, PhD



- *Bank of America University Distinguished Professor of Operations and Supply Chain Management*
- *Executive Director of Supply Chain Resource Cooperative*
- *Editor emeritus, Journal of Operations Management*
- *Author, Supply Market Intelligence, Supply Chain Re-Design and Introduction to Supply Chain Management*
- *Consulted to GlaxoSmithKline, British Petroleum, Nortel Networks, Chevron Phillips, Lyondell Chemical, Federal Express and more*

SPRINT OUTLINE

WEEK 1 SELECTING AND MANAGING TCO PROJECTS

- Understanding the TCO Process
- Managing a TCO Project
- Phase 1 of The TCO Process
- Phase 2 of The TCO Process
- Exploring Costs that Impact TCO
- Overcoming Barriers to Data Collection

WEEK 2 PREPARING FOR TCO ANALYSIS

- Comparative TCO Analysis
- Using the 3As to Model Costs
- Landed Cost Analysis
- Global Sourcing and Competitive Bid Analysis
- Understanding Tradeoffs in Global Sourcing

WEEK 3 SHOULD COST MODELING AND SUCCESS FACTORS

- Should Cost Analysis
- Building Should Cost Models
- Collecting and Building a Cost Database
- Understanding Target Costing
- Creating Win-Win Supplier Outcomes Using Should Cost Models