

Viewpoint: Evaluating Total Cost of Ownership

In recent conversations with executives from various freight forwarding companies, I've realized that there is a lot of confusion over how to evaluate total cost of ownership (TCO) for logistics IT systems.

Executives are uncertain about how much to invest in IT and how to invest. What is the best approach for a company looking to upgrade its operational systems? What are the financial and human resources requirements to convert to a different solution? The LSPs I have talked to know they must implement innovative new technology in order to provide the value-added services their customers require. The challenge is gaining a clear understanding of the true lifecycle cost of ownership involved in replacing legacy systems with a modern enterprise platform.

So, what are the expenditures associated with investing in enterprise solutions? This question was a common theme in my conversations with LSPs and can be tricky to evaluate. Few executives seem aware, for instance, that the costs and consequences of delays in project completion may contribute up to three quarters of the total cost of ownership throughout the lifecycle of a venture.





LSPs Are Looking for Ways to Optimize Their IT Systems

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Andrea Robinson
Business Development Manager - UK

To gain a truer understanding of enterprise system total cost of ownership LSPs should consider the following:

Hardware Costs: Many companies are choosing to use hosted application service providers (ASPs) to minimize hardware investment and maintenance costs. Utilizing an internet connection to access its system's database, LSPs simply pay a monthly subscription or on demand usage fee that includes support services such as training, backups, upgrades and state-of-the art technology. This significantly reduces ongoing in-house IT costs.

Software Licensing Fees: Proprietary databases or legacy systems are usually expensive to develop and maintain, and often lack the agility to respond to growing business needs. However, a tightly integrated enterprise system delivered through a hosted ASP can provide the flexibility needed to quickly react to changing business climates. It also generally proves to be the most cost effective model, as it changes the data control dynamic from being a "cost of IT" to a "cost of employment".

Training & Education: A modern enterprise system consists of many layers of functionality and offers agility and real-time data consistency among partners. Leveraging the features of any system for maximum benefit requires well-trained users. ASPs often provide cost-free training sessions that are accessible to all users at varying levels of complexity. Technology providers understand that long-term value is important and can only be achieved by offering comprehensive user training and ongoing educational support.

Opportunity Costs: Reliability and scalability are key to improving revenue and productivity. Having greater control over data that evolves with industry demands will maximize efficiency and reduce overall costs. Measuring time-to-value results gives better insight into the milestones and metrics involved.

Having a better understanding of TCO provides a clear picture of the total cost and benefits over the entire lifecycle of an enterprise system. It's clear that LSPs, regardless of their position in the technology cycle, are looking for ways to optimize their IT systems. With a renewed understanding of the entire lifecycle cost, supported by dependable metrics, they are better equipped to determine whether an on demand hosted solution can provide greater supply chain efficiencies and maximize value-added customer deliverables. This will determine the ROI and define the Total Cost of Ownership.

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