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Total Cost of Ownership

Far more than a lower price negotiation, "Total Cost of Ownership" (TCO) should be a part of both the selling presentation and the purchase decision criteria for sellers and purchasing managers alike. What will be the total cost of owning this product solution or purchase decision? What impacts for good and bad, for richer and poorer?

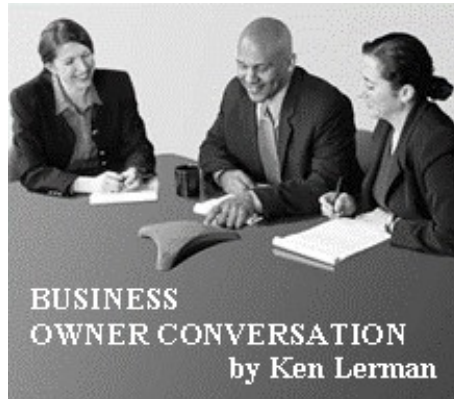
In our tighter and fluctuating "W" economy, purchase decisions and selling presentations for products of significance must intelligently include superior performance factors and impact of product solution past the selling price – especially under today's CFO P&L scrutinies. Which product solution costs less – the higher-priced solution or the significantly lower-priced solution?

The following selling or buying illustration is purposely simplistic for all to follow.

For example, grease, lubrications and engine oils might initially and typically be considered commodities within plant operations, especially under pressure from CFOs to only purchase the lowest priced commodities.

The intelligent question to be asked by a savvy and experienced purchasing manager and/or presented by a successful sales rep is: "By owning this solution, what will be the impact on my overall 'gross margin'? What is my true TCO?"

It is the responsibility of the sales rep to present – and the purchasing agent or buyer to know – the performance, values and



impact of a specific grease and oil on equipment and overall plant efficiencies when comparing pricing (especially in this economy). If the higher-priced commodity significantly outperforms the lesser-priced commodity, then knowledge of this by the purchasing agent for lubrications and oils will impact the "gross profit" of plant operations, plant

efficiencies and Total Cost of Ownership – for lubricants, oils, equipment as well as the plant P&L overall.

Using this simplistic model, let's look at the TCO of lubricants and oils. For illustration, we'll say brand A is \$175 per barrel and brand B is \$80.

1. Will using Brand A lubricants and oils significantly extend and protect the life of your equipment asset? Which is the greater cost?

Purchase price of lubricants and oils or "production downtime" and total replacement of production equipment?

2. With Brand A you need to drain the engine 3x per year vs. Brand B at 5x per year - \$525 vs. \$400.
3. With the Brand A oil or lubricant you will pull the equipment off the line once per year to do predictive maintenance. With Brand B, twice per year.
4. Your cost of labor to maintain your equipment automatically doubles (with Brand B vs. A).

5. Hopefully there is no unscheduled equipment downtime with Brand A or B. If there is, your entire production line might be shut down, and come to a halt. How might a line shut-down and all the above impact the TCO of oil and lubes for your business?
6. Next, what impact might Brand A vs. Brand B have on utility costs to run your equipment? If lubricant A performs well and causes less friction than lubricant B, production speeds will increase and utility costs will go down with Brand A.
7. Value added for Brand A lubricants and oils come with regularly scheduled oil analysis and equipment inspection by the seller – including in-plant maintenance seminars and training. Brand B offers little, if any.
8. How often does the sales rep for Brand A vs. Brand B come by and ask you “How is it going?”

Summary

Significantly Reducing Production Costs of replacement, maintenance, downtime, and utilities may far exceed the Total Cost of Ownership with Brand A than with the lesser-performing, lower priced Brand B.

What is the Total Cost of Ownership of Brand A lubes and oils vs. Brand B? What are the impacts of cost to line and plant operations past price? What are their impacts on plant efficiencies and speeds?

For a small investment in the higher priced Brand A lubricants and oils, you might receive very handsome gains in your gross margin returns – which you can then invest in business building activities and hopefully increase your market share. Tell your CFO and marketing director that!

In the U.S. today, at every turn it has become “buyer beware.” Be aware of product price, performance impact and impact on total cost of ownership before you buy!

I am for business,
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