

1. Making the Value Case

Estimating Total Cost of Ownership Guide

Total cost of ownership (TCO) is a cost-estimating approach that helps you uncover the many costs, some often hidden, of acquiring or building and maintaining an information system. It includes the full range of hardware, software, “peopleware” and facility costs that might be applicable to that system.

Estimating the TCO is an important exercise for two reasons: (1) it helps your team fully understand the costs associated with a system beyond the initial purchase or development costs; and (2) it allows you to compare costs between two systems or approaches, such as hosting a system in-house versus remotely.*

The TCO Estimate Worksheet tool includes the many categories of costs associated with an information system. However, because surveillance systems and programs differ, you may discover that not all cost categories in the worksheet are relevant to your particular system and program. Note, too, that if your IT services are centralized, many of these costs may be covered under your agency’s indirect costs, or your program may be assessed for those services. If your program is assessed for those services, be sure to document that in the worksheet, especially if comparing agency-hosted versus remote-hosted options.*

Initially, cost estimates provide a good idea of the budget you may require, but as actual costs become known, a better picture of your budgetary needs emerges.

Instructions for Use

1. Complete the worksheet by recording:

- Known costs
- Estimates when you don’t know actual costs
- Initial costs when there is a one-time cost
- Costs in each year for items that incur annual costs or when costs are spread over time (e.g., ASP/SaaS payments or annual license fees or subscriptions)

2. As you obtain firmer costs, update the entries until all costs become known.

The spreadsheet automatically calculates the total cost for individual years as well as the five-year TCO.

*A customizable online tool for comparing the costs of hosting software within your agency with a Software-as-a-Service (SaaS) provider can be found at <http://www.softwareadvice.com/tco/>