



HOW TO BUILD AGENCY SUPPORT FOR TOTAL COST PROCUREMENT

Going with the low bid isn't always the best option.



EVALUATE FROM A TOTAL COST PERSPECTIVE

If you're responsible for acquiring heavy equipment, you already know that going with the low bid isn't necessarily the best use of taxpayer dollars. The "cheapest" option can cost more in the long run if it:

- Lacks a safe operator environment
- Breaks down too often
- Can't do the job efficiently
- Burns too much fuel
- Has a complicated design that's difficult or time-consuming to service
- Has little or no value at trade-in time

These factors and many others can turn a low-bid machine into the high-cost alternative. That's why it's important to evaluate equipment purchases from a total cost perspective. If you don't have that option in your agency, the time may be right to educate those who can change the policy.

START WITH A NAME

Your first challenge is talking about the concept clearly with anyone who's not familiar with it. There are many terms and acronyms associated with this purchasing strategy. Some refer to it as Total Cost of Ownership (TCO) or Total Cost Bidding (TCB).

Others use language like Life Cycle Costing (LCC), Whole Life Costing or Cradle-to-Grave Costing. It doesn't really matter what you call the process, as long as you all understand the concept.

QUICK TIP:

When explaining total cost procurement to others, it may be helpful to compare it to a real-life experience. For example, when considering a home purchase, smart buyers look at more than just the listed price.

AGREE ON A DEFINITION

Using a consistent definition is critical, too. Total ownership costs can be defined in many ways, and that can be confusing. Again, what's important is that you develop a total cost definition that makes sense for your organization—then stick with it. Here is one well-accepted method:

- Begin with the initial purchase price (less trade-in value for old equipment)
- Add scheduled maintenance costs
- Add expected repair costs
- Add fuel costs
- Subtract residual value
- Arrive at total cost

This basic calculation can be customized to include other factors such as cost of downtime, cost of capital, cost of disposal and more. The more factors you incorporate, the more information you acquire for decision making.

USE EXAMPLES

As you educate others about total cost procurement, it can be helpful to use examples from life outside of work. Remind your associates, for example, that when considering a home purchase, smart buyers look at more than the price on the listing sheet.

They ask: Can we afford the insurance, interest on the loan, property taxes? How much will it cost for maintenance? Will we remodel? Buy new furnishings? What price can we get for our existing home? What effect will the monthly payment have on our ability to pay other bills, take vacations, add to savings?

Clearly, many factors determine whether the home in question represents the best use of the buyer's money. The same is true for an investment in heavy equipment.

SHARE CASE STUDIES

While talking about total costs in general terms is a good first step, it's also beneficial to show your associates how other agencies use the total cost procurement strategy.



"Cost-efficient fleet maintenance doesn't just happen. You must have a plan, and you need to be aggressive. When you have a company that stands behind its product like that, there's a comfort level in investing in the up-front purchase price of the machine."

Scott Zielinski

Manager of Fleet and Facilities
Lake County, IL

REMEMBER TO ASK FOR HELP

There are plenty of reasons why it makes sense to implement a total cost procurement strategy. But changing any long-standing business practice is never easy.

If you'd like help building support in your organization, check with industry associations like the National Institute of Governmental Purchasing (NIGP). Some heavy equipment dealers and manufacturers also have resources in place to assist you.

The change process may be challenging, but the payoff will be big—for your agency, your community and the taxpayers you serve.

The web is a great resource for success stories. Find case studies there about organizations, like:

- Greenlee County, Arizona, whose public works department has used total cost procurement to reduce the cost of operating every motor grader in its fleet by \$5 per hour
- Lake County, Illinois, whose equipment management team is increasing fleet value by making disposal and acquisition decisions based on life cycle costs
- City of Winnipeg, Manitoba, Canada, whose consolidated procurement group adopted a total cost perspective several years ago and saved more than \$10 million in the first four years

Sharing real-life stories like these can go a long way toward building understanding and support.

INVOLVE END-USERS IN THE DISCUSSION

Sometimes the best advocates for total cost procurement are the men and women who operate and maintain the equipment you're purchasing. They know firsthand why the low-price model may actually be the high-cost machine. So get their input about what constitutes a good equipment investment. Ask about reliability issues, safety features, ergonomics, fuel usage, ease of maintenance and other factors that are important to them. Listen carefully to their take on total costs. Then share what you learn with leaders and decision makers.

FOCUS ON BENEFITS

Ultimately, you'll sell the value of total cost procurement by continuously communicating its many benefits. Here are some of the most important ones:

- **Budget with certainty.** When you receive total cost information from your vendors, you can create a meaningful budget and manage it with precision and accuracy.
- **Enhance strategic decision making.** The more you know about the product you're buying, the better you're able to make decisions that are in the best long-term interests of your community.
- **Maximize investment value.** Capturing a more complete cost picture will allow you to allocate your limited resources to equipment that delivers the highest return over the long run.
- **Attract qualified bidders.** Requiring more from those who respond to your RFPs should help weed out less capable or less reputable vendors.

LIFE CYCLE COST CALCULATION

INITIAL PURCHASE PRICE

- TRADE-IN
- + MAINTENANCE
- + REPAIRS
- + FUEL
- RESALE VALUE

TOTAL COST

- **Promote vendor accountability.** When all vendors are required to document cost data, you have a means of holding them accountable for the promises they make.
- **Increase access to quality products.** Creating a level playing field for both low-cost and high-value producers will give you the opportunity to consider a wider range of equipment options.
- **Improve employee safety, satisfaction and productivity.** Buying quality equipment can have a powerful effect on safety and morale, both of which drive productivity gains, cost reduction and efficiency improvement.
- **Demonstrate environmental responsibility.** Higher-priced machines typically last longer than cheaper models and may be designed to be rebuilt or remanufactured for a second life. They may also meet more aggressive emissions standards, generate less noise and use fuel more efficiently. All of these factors can translate into a more sustainable investment option.
- **Improve public perception.** When you invest in quality equipment that runs reliably and does the work it's expected to do—without delays, breakdowns and cost overruns—you'll be in a better position to earn a reputation as a well-run governmental agency.

Find more resources here: nigp.org, njpacoop.org and cat.com/governmental

Making the best use of your budget. We're built to achieve that.

BUILT FOR IT.