

**IMPORTANT INFORMATION**

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A guide for OEMs and their dealers to

# **Dynamic Lifecycle Costing For Machinery and Vehicles**



**Loosing Sales to Competitors**

**A BEST PRACTICE PROGRAM FROM**

DSI CONSULTING (DIVISION OF DECISIVE SYSTEMS, INC.)

SARASOTA, FL 34231

[www.DECISIVECOST.COM](http://www.DECISIVECOST.COM)








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## A Word That You Should Know

Manufactures and their dealers are under increasing fire to provide end-users of their machines with accurate, timely cost of ownership and operation information. The Best Practice of providing this information is through the process known as Dynamic Lifecycle Costing.

The key word in the above sentence is *Dynamic*. This indicates one or many frequently changing parameters of use. We work with companies whose machines and systems change in cost due to :

-  Application or type of use
-  Utilization Hours
-  Operating Environment
-  High Wear Cutting Tools and Parts
-  Disposable Items Consumed
-  Fuel or Energy Costs
-  Operator Proficiency

In this brochure, you will find answers to some of the most difficult problems of determining true ownership and operating costs that have plagued and frustrated manufactures dealers and machinery owners alike for years.

Your ability to solve these problems for you end users will make a substantial difference in your sales and profit numbers this year! Call us and let's talk.

To your success,

A handwritten signature in black ink that reads "Dan Rooks". The signature is fluid and cursive, with a long, sweeping tail on the letter "s".

Dan Rooks  
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# What You Need to Know About Dynamic Life Cycle Costing

This article examines the role of the Original Equipment Manufacturer and their dealers in providing costing information end-users and prospective clients.

## Should You Provide Lifecycle Info?

This is a normal question that is raised in almost every manufacturing and dealership organization. You may hear it asked in a number of different ways. The answer takes some understanding of exactly what Lifecycle Costing is and who should do the costing.

As to the question of who should do Ownership and Operating Cost (O & O) costing, there are only three possibilities to this question. The manufacturer? The dealer? The end-user?

If the definition of the word costing, means tracking of costs and money spent over a previous time period (last one to five years) for the purchase and operation of machinery, the answer is simple. Costing is the responsibility of the end-user of the equipment. *However, this is Historic Costing. It is not Lifecycle Costing.*

Generally when a manufacturer or dealer is asked about Ownership and Operating Cost, the person is referring to Lifecycle Costing. They are not asking about accounting or historical costing. Lifecycle Costing involves taking into account ALL likely costs, which are incurred over the entire ownership period of the machine. Standard accounting, only records what actually occurred in a time period. Accounting is a look back in time. Dynamic Lifecycle Costing is a forward forecast based on changing conditions of use.

## Four things to understand about machine Lifecycle Costing

1. It is *critical* that end-users know their cost in order to correctly price their services so they can stay in business, grow and buy more machines.
2. It is extremely difficult, if not impossible for a *manufacturer* to accurately cost a machine without the help and cooperation of the dealer and end-user.
3. It is extremely difficult, if not impossible for a *dealer* to accurately cost a machine without the help and cooperation of the manufacturer and end-user
4. It is extremely difficult, if not impossible for an *end-user* to accurately cost a machine without the help and cooperation of the dealer and the OEM.

Without accurate costing, the end-user or dealer is forced to make pricing decisions that will adversely impact their profitability. Over time this will ultimately affect the industry and the manufacturer's and dealer's profitability.

## The Triple Win

The end-user, the dealer and the OEM all have a relationship that depends on each other. When the manufacture provides help to the end-user through its dealership, everyone wins. The same could be said of the dealer. Understanding and providing machine costing data and cost of production is a must for all OEM's and Dealers. When the End-user wins, the Dealer and the OEM wins.

## The Dreaded Question: How much will this machine cost to own and operate?

Questions about Lifecycle Costing are asked end-users They expect you to know.. Sometimes the question is tied into productivity measurements such as; "What will be our cost per ton (or yard, or meter to own and operate this machine?"

To win sales in today's markets you have to be ready to answer this and other costing questions.



## The Equipment Dealer's Profit Improvement Program With Lifecycle Costing

OEMs, machinery dealers, and end users alike have a need for accurate, timely cost of ownership and operating cost.

**Overall Corporate Goal:** To add to the dealership's Net Profit, three percentage points (i.e. to go from 4% net profit on sales to 7%), from five objectives.

Objective #1 - Increase Net Profit per Machine Sale

Objective #2 - Increase Customer Loyalty

Objective #3 – Increase Service Business

Objective #4 – Increase Genuine Parts Business

Objective #5 – Add a minimum of \$5.00 per operating hour to rental fleet profit. (i.e. 1000 hours per machine per year x 100 machines = 100,000 hours x \$5.00 = \$500,000.00).

## PRIMARY ECONOMIC REASONS PEOPLE ENGAGE IN LIFECYCLE COSTING

OEM's need Lifecycle Cost information to:	Equipment Dealers need Lifecycle Cost information to:
Meet equipment dealer's request for information.	Answer Request for Proposals and bid specifications requiring lifecycle information.
Gain market share in tough markets.	Respond to client request for information on Lifecycle costs.
Increase sales though value-added efforts, not though lowering price to unprofitable levels.	Work with local contractors to win large projects requiring new or rental machines for project duration.
Bring dealers' sales reps to a deeper level of understanding customer's needs.	Adjust rental rates based on application and length of project (A, B or C client pricing).
New sales opportunities based on trade-in of old machines by showing cost advantages.	Component lifecycle data will improve parts inventory turnover and correct levels for availability.
Assist product R & D teams by better understanding of Lifecycle costs.	Calculate accurate Maintenance and Repair Contract (MARC) rates for different machines.
Establish leadership in quality and reliability.	Quote total lease with maintenance agreements.
Machinery Owners need Lifecycle Cost information to:	
Produce accurate cost and pricing estimates for machinery related project costs.	Calculate the unit cost of products produced. (cost per yard, meter, ton, or time etc.).
Budget and plan in advance for large cost machinery repairs.	Compare the effect of different size machines based on unit cost per yard, meter, ton, or time etc.
Set machinery rates that cover costs and provide a reasonable return on investment.	Know exact cost changes based on different annual utilization rates.
Make new machinery purchase, lease or rent decisions based on real facts.	Understand the true cost of old machinery that is used for "standby" use.
Allocate actual machinery costs to different operating units and departments.	Know total fleet cost and effectively manage their fleet of machines and assets.

### What is Needed to do Life Cycle Costing?

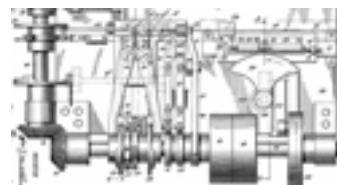
Lifecycle costing requires information and no fear. Often an end-user only has a small part of the information needed. The primary information needed is various component lifecycles on each model machine. A large enough data sample to generate statistically significant samples of information is required. Generally, end-users or even dealers do not have enough data to accurately do this alone.

Collecting, cleaning and maintaining lifecycle data is not easy. Systems must be developed to do this.

This is a critical job that will pay back many times the effort involved.

Even if not one end-user asked for this information, it needs to be done for internal; Cost Reduction, Lean Manufacturing, Supply Chain Management, Quality Control and Assurance needs!

*"Drive out fear, so that everyone may work effectively..."*(Edwards Deming *Out of the Crisis*, Chapter 3) This certainly applies to lifecycle data and systems. Fear comes from many places based on misconceptions like it's too hard, expensive, etc.



## A QUICK OVERVIEW OF THE DECISIVECOST DYNAMIC LIFECYCLE COSTING PROGRAM

Here is a step by step look at our process for bringing Dynamic Lifecycle Cost to your company

<u>Conceptual Stage</u>	<u>Time Frame</u>
Step 1 Send us your Request for Information.	Today
Step 2 We arrange for an initial meeting and signing of confidentiality agreement.	Within a week
Step 3 Retain DSI Consulting to conduct Gap Analysis of your existing data resources, programs and policies that will affect your ability to provide accurate timely Lifecycle Cost information.	15 - 30 days
Step 4 Meeting to review and act on the Consultant's Report of Findings and Recommendations.	15 - 30 days
 <b><u>Project Stage</u></b>	
Step 5 Project team is formed.	15 - 30 days
Step 6 Project plan and scope is developed. Request for final quotations are sent to implementer, and Decisive Systems.	15 - 30 days
Step 7 Plan is approved by your senior executives and funding is in place.	15 - 30 days
Step 8 Lifecycle data search and acquisition begins. Sources; engineering, warranty records, R & D, dealer maintenance records, dealer master mechanics.	30 – 90 days
Step 9 DecisiveCost software tool private label branding (for OEMs).	Contemporaneous
Step 10 Build required databases as outlined in Project Plan.	Contemporaneous
Step 11 Dynamic Lifecycle Cost training for all OEMs, dealers, data users and data collection people.	15 – 180 days (Ongoing)
Step 12 Follow-up Dynamic Lifecycle Cost training.	Ongoing
Step 13 Lifecycle Database maintenance and new models added.	Ongoing

### **Partial list of applications.**

Earth Moving Machinery	Concrete Delivery	Machining Centers
Mining, all types	Garbage Collection	Factory and Plant Lines
Logging and Timber	Oil and Gas Exploration	Process industry
Fleet Management	Aircraft, Jet and Prop	Pulp and Paper
Vocational Trucks	Marine Vessels	Asphalt and Concrete

### **What do you need to cost?**

## Why you should be working with Decisive Systems on your Lifecycle Cost project.

**Experience.** We understand what it takes and how to do lifecycle costing. Our experience puts us in a world-class category that will benefit you. We have done this before. No one in the industry has more experience than we do.

**Capability.** Only Decisive Systems can offer you the combined resources of three critical groups of professional services to bring your project to reality.

- **DSI Consulting Group**, integrates actions necessary for a successful project by:
  - Providing needs and gap analysis
  - Coordinating project management
  - Conducting training
  - Outsourcing your database development work
  - Developing necessary policies and procedures
- **DecisiveCost Technology Group**, is the developer of the DecisiveCost system. This group provides you with custom programming, report creation, new software versions, maintenance and Help Desk support.
- **DSI Education Services Group** provides educational training material and internet based training and support available 24/7/365, all in multiple languages.

**Knowledge.** Decisive Systems pioneered the development and automation of Lifecycle costing. We have developed extensive databases and techniques so that you do not have to reinvent the wheel. On a typical project, our people and our knowledge base will save you 12 to 18 months work and hundreds of thousands of dollars.

**World-wide Service Area** for companies and organizations that have an international scope of operations. Call us today!

<p>DECISIVE SYSTEMS, INC. 2139 SANDRALA DR. SARASOTA, FL 34231</p> <p>YOUR CONTACT IS:</p>	<p>MAIL TO:</p>
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