

How to Determine Total Cost of Ownership in Ecommerce



Prior to selecting and purchasing an [ecommerce](#) solution, there first needs to be a thorough understanding of the [platform's costs](#), from beginning to end. While that may seem obvious, a common trap for organizations is not understanding exactly what that entails, including potential hidden, ongoing and opportunity costs.

This is where total cost of ownership (TCO) comes into play.

As [defined by Investopedia](#), the total cost of ownership is the purchase price of an asset plus the costs of operation. In essence, TCO looks at the bigger picture to uncover the actual costs of any purchase over its lifespan, from implementation fees to support and maintenance costs.

With more than [80% of firms surveyed by Forrester](#) stating that they require a three to five-year TCO analysis before solution procurement, TCO as a metric has quickly become a must-have for businesses — and it's increasingly clear why.

Why is Total Cost of Ownership Important?

TCO is an often overlooked and underestimated aspect of ecommerce. Development and acquisition costs typically get top billing, as they're essential for driving and generating revenue.

However, understanding TCO involves deep insights and operational planning to uncover where costs can occur and how they can affect your business, in both the short term and long term.

The benefits of TCO can affect you in several ways, including:

Evaluate ROI.

TCO calculations can help businesses evaluate their return on investment (ROI) as well as another underappreciated metric, return on time invested (ROTI).

Each of these metrics is extremely valuable for organizations as it highlights the profitability of any investment or venture.

Understand hidden/ongoing costs.

Hidden, ongoing and indirect costs can hamstring a business if you don't understand what they are and where they're coming from. Many are not obvious and can ultimately hamper profitability.

One of, if not the most important, capabilities of TCO is to uncover these costs, allowing you a glimpse into your actual financial situation.

Helps you choose the right platform.

When choosing an ecommerce platform, knowing where hidden costs may lie and how they can affect your business is crucial. Many companies don't mind showing you purchasing costs, but when it gets down to the nitty gritty, it can be harder to get straight answers.

By prioritizing and calculating TCO for three, five or ten years, you can know what questions to ask.

How to Calculate TCO

When calculating TCO, there are two primary areas to focus on: initial costs and ongoing costs.

Initial costs.

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Initial costs, often referred to as capital expenditures, cover what it takes to purchase and implement any product or solution. They involve expenses such as:

Development

Not all platforms require a development process, such as if you select a closed source, SaaS solution. However, if you select an open-source platform, there will be necessary additional costs assumed to purchase and implement the solution.

Development typically involves processes and expenses such as a business cost analysis, audit, design integrations and architecture structuring.

Integrations

One of the biggest hurdles when purchasing any new software is figuring out how to integrate it with your current and existing solutions.

From enterprise resource planning (ERP) programs to customer relationship management (CRM) solutions, integration will be required, and it can quickly prove challenging — and costly.

As an initial cost, integrations generally occur near the development stage, and pricing depends on factors such as the complexity of integration and the number of integrations needed.

Extensions/apps

Each and every ecommerce platform that you review will come with a unique feature set — some may have just what you're looking for, while others provide only a snippet.

To add any functionality, you may have to use extensions or applications. Each of these will have its own pricing models and payment methods, making consolidation a potentially complicated process.

Training

There will likely be required training every time you move to a new solution. These are often quite comprehensive and involve end-users from various departments of your business. Understanding the training costs will be essential, especially considering training doesn't end at implementation.

From pre-launch to post-launch, training can become prohibitively expensive if you aren't prepared.

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One-time setup fees

Before you can use or launch your ecommerce site or platform, there's one final step: setup fees. Setup fees are dependent on the service and platform you have purchased and can include items such as:

- Domain name registration.
- Templates.
- Server configuration.
- Integrations.
- Email setup.

Ongoing cost.

Ongoing costs, often called operating costs or expenses, involve the recurring fees and charges associated with maintaining a software solution. Such costs include:

Software license

In today's digital world, license fees for ecommerce solutions typically come in two packages: all-in-one or subscription-based. Some open-source software advertise themselves as free, though there are often hidden charges or features locked behind an enterprise or business plan.

Subscription-based software is an unfortunate result in some ways for organizations, but one that they must be dutiful in watching. Subscription costs can sneak up on a business since they come in different packages.

Transaction fees

Transaction fees are another charge that can surprise businesses, often included as a part of a licensing agreement. They occur each time a transaction is made, meaning that an amount of the revenue your company produces is shared with the platform distributor.

Additionally, if you plan on using third-party payment gateways such as PayPal, Square and Stripe, you may get charged with yet another transaction fee, taking away even more of the pie from your business.

Marketing costs

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In the modern ecommerce sphere, marketing is essential to long-term success and growth, whether it's SEO-driven processes, content marketing or broad email campaigns.

Marketing is a never-ending, consistent process, from events to holidays and growth progressions. Being able to measure marketing costs adequately is invaluable for modern businesses.

Maintenance

Maintaining an ecommerce platform is akin to maintaining a car. No matter how well you take care of it, there will inevitably be unforeseen costs, depreciation, warranty updates and even functionality losses.

Many ecommerce providers offer maintenance, support and upgrade packages with the initial purchase, though they often come with time constraints and limits. To ensure a healthy, growing platform, maintenance is critical — and a cost you must be aware of.

Support

Similarly, support costs are an increasingly critical aspect of any ecommerce platform. However, there are a variety of support options available, from paid services to 24/7 chat support.

When selecting an ecommerce platform, ensure that you review the details of the support and whether they are an added cost to any subscription fees.

Unexpected costs

As with any purchase, be aware that you will likely eventually come across costs and fees you were not expecting, whether it's consultations, contract purchases or even solution-specific hiring costs.

With [43% of ecommerce solutions](#) having an actual cost of ownership higher than predicted by TCO models, it is critical to add a buffer to any budgeting plans you create just to give yourself more wiggle room in case of any unforeseen events.

The Final Word

Total cost of ownership is not the end-all, be-all for organizations, and there must be metrics outside of it that help to guide purchase decision-making.

The goal of any TCO project should be to help illuminate short and long-term costs where they are often missed and allow you to identify where changes can be made and what avenues to

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avoid.

Ultimately, by understanding the TCO of an ecommerce solution, businesses can have a better grasp on what the future holds and better project the life cycle of a solution.

FAQs About Total Cost of Ownership

What are the best practices when determining total cost of ownership?

When determining total cost of ownership, it is critical to review, understand and follow both initial costs and ongoing costs — not to mention hidden costs. As stated above, the fees and costs you will have to pay are varied and can sneak up on you if you aren't paying attention.

What's the difference in TCO between on-premise software and cloud-based?

The primary difference between on-premise software and cloud-based software is the location of the solution itself. Where on-prem requires companies to buy, deploy and maintain infrastructure to maintain the solution, cloud-based solutions work from a remote location and are typically maintained by the vendor/platform provider. With this in mind, it is clear that the differences in TCO are considerable. From upfront costs to build the solution's infrastructure to design, deployment and maintenance costs, the TCO for on-premise solutions can become substantially more expensive.

What items shouldn't be considered when calculating total cost of ownership?

While using TCO when purchasing a software solution can help you uncover hidden costs, it should not ever be the only metric you're using. If TCO is the only driving force behind purchase decisions or project prioritization, then it'll inevitably lead you to the cheapest option — often a much different thing than the right option. When deciding on a software solution or which projects to choose, make sure that TCO doesn't dissuade you from selecting an item that could help you in the long run in ways and methodologies that don't always show up on the budget sheet.