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How to Determine Total Cost of Ownership in Ecommerce



Total cost of ownership (TCO) is an essential part of running any business, be it a brick and mortar or an online store. This is especially true in the ecommerce space, where many elements of cost are out of sight and easily out of mind. This makes determining ecommerce total cost of ownership both crucial to success, and difficult to tackle.

When choosing an ecommerce solution, it's easy to fixate solely on the costs directly tied to that platform, like subscription or upgrade fees. This overlooks the countless other expenses that go into ecommerce TCO, like ongoing maintenance or plugins or replatforming expenses and so on.

Whether you're just beginning your ecommerce journey or a seasoned veteran, understanding ecommerce TCO is paramount to long-term success. With a proper understanding of TCO and the right strategy, you can increase your chances of a positive return on investment (ROI), and focus on delivering the best customer experience possible while growing a sustainable business.

What is ecommerce total cost of ownership?

Ecommerce TCO is a true measure of the total costs associated with owning and operating an ecommerce business. (Otherwise it'd be dubbed "partial cost of ownership.")

The TCO contains numerous elements that can be broken down into two primary categories:

- **Initial costs:** These include upfront costs that come with an ecommerce business, like the subscription fees of a new platform, add-ons, a website domain, and any development costs.
- **Ongoing costs:** Monthly platform and hosting fees, supply chain management, marketing and opportunity costs, infrastructure costs, and countless others make up your ongoing expenses.

In other words, TCO is a true measure of how much your business will cost to operate in the long haul, going beyond the price tag associated only with your ecommerce platform costs.

The benefits of knowing ecommerce TCO

Knowing your ecommerce business TCO takes a lot of effort, but it also equips you with truly holistic financial knowledge. This enables you to do several things more effectively.

Evaluate ROI.

You can't determine the ROI of an investment without knowing what it truly costs. If you buy an apple for a dollar and sell it for five, you can quickly determine your ROI and that you grossly overcharged someone for an apple. This isn't as clear-cut with an ecommerce business.

With accurate TCO calculations, you can gauge if your sales are truly outweighing the cost of your ecommerce business.

Without your TCO, you're selling that apple for two dollars without knowing how much you spent on it in the first place.

Understand hidden costs.

Hidden, ongoing, and indirect costs can hamstring a business, each of them playing a role in hurting your profitability. Especially when you don't know where they're coming from.

One of, if not the most important, capabilities of TCO is to uncover these costs, allowing you a glimpse into your actual financial situation. Because TCO entails a complete understanding of all costs tied to your business, it inevitably leads to identifying each sneaky little hidden and ongoing cost.

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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 know what's in your budget for the long haul.

Thinking about your TCO beforehand also helps with identifying potential add-ons a platform may or may not offer, and any associated costs.

Key cost considerations for ecommerce TCO

Total cost of ownership is comprised of initial costs and ongoing costs. Within each of these categories are a number of items that can quickly add up.

Note: Keep in mind initial and ongoing costs will vary for each business, meaning this list is by no means exhaustive. This is especially true for new markets, where there are more unknowns to keep track of.

Initial costs.

Initial costs cover what it takes to purchase and implement any product or solution. Within initial costs are a number of expenses you can expect right out of the gate when setting up your digital storefront.

Development.

Not every commerce platform will come with development costs, as many SaaS solutions are closed source or have site builders included with your subscription. But, if you plan on using an open-source ecommerce platform or doing any in-house development, expect a price tag. The same goes for any functionality you have to add.

For example, if an ecommerce platform doesn't have integrations with your preferred order management or checkout system, you'll need a custom ecommerce API. That means hiring an in-house dev team or outsourcing.

Keep in mind any custom development will likely entail updates and maintenance, resulting in ongoing costs and potential downtime during service.

Integrations.

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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, integrations are often unavoidable, 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. This price can often go up depending on the level of data migration required, making it more expensive for established businesses with larger datasets.

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 will meet only some of your business needs.

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.

Note: Keep your unique needs in mind when looking at different ecommerce platforms. If one has more of the functionality you need, or free extensions to make it possible, it can often be more cost-effective to go with that platform over another — even if the monthly cost of the platform itself is higher.

Training.

There will likely be required training every time you move to a new solution. Think about the size of your team, complexity of the solution, and how long you envision the training going on for.

Even if a platform offers complimentary training or you're able to handle the training yourself, don't forget the time investment as well.

One-time setup fees.

When launching an ecommerce business**,** one-time setup fees are often unavoidable. These fees can vary depending on your business needs, the platform itself, and any resources you already have.

While one-time setup fees for your ecommerce site can have many forms, typically they include:

- Domain name registration

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- Site templates or design
- Server configuration
- Integration fees
- Paid modules

Depending on your own design prowess, you may be able to avoid some of the above fees like site templates. Again, time is money, so it's important to weigh any potential time investment against the cost of outsourcing.

Inventory management and product.

Unless you're selling a service, you're going to have product to worry about. Depending on whether you make or buy your product, these costs may be significant or more of a time investment on your end.

Beyond the product itself, there's also the matter of inventory. If you have the space to house your products, great. If not, you're going to have to rent or purchase an inventory space, or pay to work with a shipping company.

Ongoing costs.

Ongoing costs, or operating costs, involve the recurring fees and charges associated with maintaining a software solution and running an online business. Like initial costs, these can vary, but there are several you can count on.

Ecommerce software or subscription.

It's less and less likely that you'll encounter a true software license fee in the ecommerce space. While some options are available, offering an ecommerce solution for a single software fee, you're more likely to run into a subscription-based model.

With a subscription, keep in mind there can be additional costs, like taxes or fees and any paid modules or extensions.

If you go with a free, open-source ecommerce software, keep in mind the onus of development will often fall on you. If you don't have an in-house dev team, this means hiring an agency, which can quickly add up, requiring further investment anytime your platform needs an update or maintenance.

Transaction fees.

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Some ecommerce platforms will come with a transaction fee, eating into a percentage of every sale you make. (Note: BigCommerce has a not-so-big transaction fee of 0%.)

Along with these transaction fees, you can also run into fees associated with payment gateways, like Paypal, Square, or Stripe. This isn't including credit card fees, which can hover in the .

Marketing costs.

Marketing is a must if you want to reach your audience. Ecommerce marketing costs can vary greatly, but oftentimes you're looking at:

- **Email marketing**: Ecommerce email marketing can entail a marketing agency, an email platform, design fees, and beyond. But, it can also help you recover abandoned carts and drive sales.
- **Ecommerce SEO**: Search engine optimization (SEO) takes time and effort, requiring an agency or someone in-house with know-how. Over time, SEO can help you drive organic traffic, which is crucial to long-term growth.
- **Paid ads**: Ads are a common element in any ecommerce marketing strategy, with prices varying from one platform to another.

Marketing is a never-ending, consistent process, from events to holidays to general pushes for growth. Keeping tabs on your marketing costs is key to avoiding any overspending while still making progress toward your goals.

Maintenance.

Regardless of the ecommerce provider you go with, maintenance is an inevitability. Ecommerce maintenance involves a number of tasks, which can range from costly to minor inconveniences:

- Password updates
- Security updates
- Data backups
- Module or extension updates
- Host migration

Depending on the ecommerce platform you're using, you can avoid many costly developer-heavy maintenance tasks. This is especially true for SaaS platforms, where most of the backend issues are handled by the provider.

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No matter what, it's important to follow security best practices, like regularly backing up your data and updating passwords. While not a financial sink, these tasks will take time.

Support.

Many major ecommerce platforms will include support as part of your subscription. If you go with an open-source or in-house platform, you'll have to hire support or outsource it to an agency.

When selecting an ecommerce solution, review their support details to determine if it comes with any fees, what kind of support and turnaround time you can expect, and if there's any chance you'll need third-party help.

Inventory and product.

Your old friends, inventory management and product, are back! You're going to have to continually stock product, and you'll have to make sure that product has a home until it gets shipped to a customer.

No matter the route you choose, you'll also have shipping costs to deal with, which can vary depending on whether you ship via UPS or the like, or have an ongoing partnership with a shipping company.

Unexpected costs.

Expect the unexpected, even in ecommerce. Costs outside your control can and will occur, whether it's a costly return of products that didn't sell, compliance or legal challenges, or a sudden spike in product costs.

As part of your ecommerce accounting practice, you should set aside a rainy day fund for unexpected costs just like these.

How to calculate ecommerce TCO

While there are countless elements making up your ecommerce TCO, calculating it is, fortunately, rather simple. Use the following formula to measure your ecommerce TCO:

TCO = Initial Costs + (Ongoing Costs × Operating Time)

For example, let's say you've determined your initial costs are a modest $2,000 given you're not stocking a ton of product at launch. Ongoing costs amount to $20,000 per year, and you'd like to know your TCO for at least five years out.

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Your five-year TCO would be: 2,000+ (20,000 x 5) = $102,000

Once you've found your TCO, revisit it often to see if you're on target, over, or under.

Strategies to lower ecommerce TCO

Many of the costs associated with ecommerce TCO are unavoidable, but that doesn't mean they have to be sky high. With a little work, there are a number of ways you can lower your TCO:

- **Regularly audit your TCO:** Don't set and forget your TCO. Instead, audit it at regular intervals to look for cost savings, whether it's an add-on that you can now live without, support you no longer need, etc.
- **Embrace automation:** Work smarter, not harder. Use automation and AI-powered tools where you can, whether it's a chatbot to help with support, automated workflows to reduce time spent sending emails, or advanced customer relationship management (CRM) software to expedite sales.
- **Utilize inventory and sales forecasting:** The right CRM and inventory management software can help you forecast sales, enabling you to buy products in advance when prices are down, run sales during dips, and scale operations when necessary.
- **Look for free or cheaper modules:** Many modules or extensions have cheaper or free counterparts. Do some digging and see if you can find alternatives that still give the functionality you need, without the added cost.
- **Use a SaaS ecommerce platform:** Open-source and license-based ecommerce platforms may lack monthly subscriptions, but often require more lifting on your end and added costs that come with support. A SaaS platform, like BigCommerce, can be cheaper in the long run in many instances.

Costs fluctuate, so the importance of revisiting your TCO can't be overstated. Keep a detailed spreadsheet and track the cost of individual items over time. It's also a good idea to keep track of your use for any services, solutions, modules, and so on. If you're not using something often, determine if it's worth keeping around, or something you can cut entirely.

The final word

Measuring your ecommerce TCO takes time and effort, but it's energy well spent.

Equipped with your TCO, you can confidently plan ahead and set the stage for long-term success rather than a short-term mess.

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Whether you're just starting out or well-versed in ecommerce, a proper understanding of your TCO will take you far. Pair this with the right ecommerce architecture, and there's little that can stand in your way.

Download our guide on building a resilient ecommerce architecture, and learn how you can lay a foundation that lasts.

FAQs about total cost of ownership

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

When determining total cost of ownership, it's essential you include initial costs and ongoing costs. Don't neglect the upfront cost of any product and inventory management when getting started, either.

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

On-premise software is housed on the servers of the business itself, requiring local installation of the software. Cloud-based software is run via cloud computing, with hosting and services handled by the providing company. For TCO, on-premise software can carry a larger upfront cost, with added development and support costs. Cloud-based software impacts TCO with an ongoing subscription, but often fewer maintenance and developer costs.

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

When determining total cost of ownership, you should typically avoid including any sunk costs that predate the purchase of the business or item you're finding the TCO for. You should also avoid including any fees that don't relate to the item itself.

What hidden costs are often overlooked when calculating ecommerce total cost of ownership?

Shipping and product-related costs are often overlooked when calculating ecommerce TCO. This includes things like the costs of returning unsold products, any shipping partnerships, and storage space. Additional items often overlooked when finding ecommerce TCO include marketplace or payment fees, marketing and customer acquisition costs, and fees that often come with operating in highly-regulated industries.

How does technical debt impact the total cost of ownership over time?

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Technical debt can impact total cost of ownership by incurring maintenance and security costs down the road, slowdowns and business downtime, and in a worst case — security issues and legal fees in the event of a breach and customer data loss.

How does TCO calculation differ for B2B companies?

For B2B companies, TCO calculation often involves looking at a much longer period of time, often several years, rather than short-term. This number can vary depending on how long the vendor agreement is. With B2B TCO, it's important to factor in how vendor lock-ins can impact profitability, the higher-level of training often associated with B2B deals, and the lengthier integration and implementation times associated with SaaS companies.

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