How to make a sensible cost comparison: How to avoid comparing apples with oranges

Whether selecting a new supplier, deciding on an investment or evaluating alternative business strategies, a thorough cost comparison is essential for making informed decisions. But often enough, mistakes creep in: incomplete data is compared, relevant costs are overlooked or qualitative aspects are not adequately taken into account. The result? Distorted results that can lead to wrong decisions and unexpected additional costs.

In order to minimize such risks, it is important to approach the cost comparison systematically and methodically. It is important to ensure that all relevant factors are taken into account and that the results are objective and comprehensible. An interim manager can play a decisive role in this process. With my expertise and neutral perspective, I help companies to draw up structured and reliable cost comparisons that clearly show the actual economic impact.

This article shows you how to draw up a sensible cost comparison, what pitfalls to avoid and why using an interim manager can make the difference between a sound decision and an expensive mistake.

The basics of a well-founded cost comparison

The first step for a reliable cost comparison is to define clear parameters and evaluation criteria. Without a solid basis, companies run the risk of inadequately comparing different offers or options. The essential basics include

Clear objective:
Before the actual analysis, it is crucial to define the objective of the cost comparison. Is it short-term savings, long-term added value or a reduction in total operating costs? This objective has a decisive influence on which criteria are included in the comparison and how they are weighted.

Uniform evaluation criteria:
All options should be compared on the basis of uniform evaluation criteria in order to be able to make an objective decision.
These include

- **Direct costs**, such as purchase prices, production costs or license fees.
- **Indirect costs**, such as training costs, maintenance costs or implementation costs.
- **Waiver costs**, which represent the renunciation of other alternatives and opportunities.

It is also essential to clearly define the observation period.
Depending on the objective, a short-term or long-term perspective can be selected, e.g. on an annual basis or over the lifetime of a project or product.

Total Cost of Ownership (TCO):
A common mistake is to focus solely on the acquisition costs.
The TCO approach looks at the total costs incurred throughout the lifecycle of a product or service - including operation, maintenance and disposal. This method ensures that decisions are not only based on short-term savings, but also take long-term effects into account.

Time value of money:
In order to make investments comparable over time, the time value of money should be taken into

account.
Methods such as the net present value method or the internal rate of return help to discount future costs or income to their present value and thus achieve better comparability.

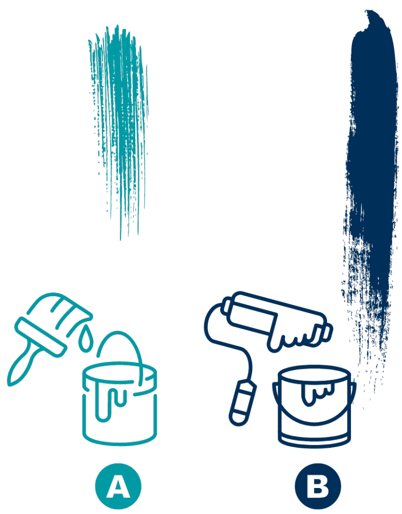
The pitfalls of an inadequate cost comparison

Despite clearly defined parameters, there are many pitfalls that can distort the comparison. These often arise due to the neglect of certain types of costs or qualitative differences that are not immediately apparent.

The most common pitfalls include

Hidden operating costs:
While one-off costs are easy to record, ongoing operating costs are often overlooked. These can have a significant impact on overall costs. Examples include maintenance costs, training or electricity consumption. A comprehensive comparison must ensure that such operating costs are fully captured and included in the overall calculation.

Different scopes of services:
offers can vary greatly in their scope of services. One example is the comparison of colors. One provider may be cheaper, but what is the coverage of the paint? Does it need to be painted more often? How many square meters can be painted per can? Such qualitative factors influence the actual costs considerably and must be carefully evaluated.



Qualitative factors:
Qualitative criteria are often just as important as the price.

> **For example**, a service provider may offer a lower price, but may not offer a 24/7 service. Especially in industries where emergencies can occur, such as travel agencies, the reliability of the service provider is crucial.

Is it ensured that the promised service availability is actually guaranteed?
These factors must be contractually fixed and consistently monitored.

Payment terms:
In addition to the price itself, the payment terms are also very important.
For example, one provider may grant a 90-day payment term, while another requires payment in advance.
Such conditions have a direct impact on a company's liquidity and should therefore be included in the comparison.

Subjective quality requirements:
It is important to define clear and measurable quality requirements, as subjective expectations often lead to misunderstandings.
Companies should be clear about what "quality" means to them - whether it is longevity, adaptability or ease of service - and consider these requirements in the comparison.

The importance of a structured analysis

A well-founded cost comparison requires a deep understanding of both the parameters to be compared and their long-term effects. A structured approach helps to avoid distortions and create an objective basis for decision-making. This requires comprehensive data, methodological accuracy and a thorough consideration of both costs and qualitative aspects.

An interim manager can play an important role in this process and use their independence and expertise to ensure that all relevant factors are evaluated objectively and that no relevant aspects are overlooked. With the necessary methodological expertise, I can also help you as an interim manager to analyze complex cost structures and ensure that a neutral and holistic comparison is made.
This is particularly valuable in situations where quick and well-founded decisions are required, but internal resources are not sufficient to carry out an in-depth and structured comparison.

A meaningful cost comparison is therefore more than just a column of figures in an Excel spreadsheet. It is a strategic decision-making tool that has a lasting impact on the future of your company. It is essential to make all types of costs transparent and to take qualitative differences into account. Interim managers are not only consultants in this process, but also facilitators of an objective and well-founded analysis.

Take advantage of this opportunity and let's work together to avoid costly mistakes caused by inaccurate comparisons!

Conclusions

- **Thorough and systematic cost comparison** is essential for well-founded decisions; errors can lead to additional costs.
- **Consideration of all cost types and qualitative factors**: Direct, indirect costs and qualitative aspects are important for a comprehensive comparison.
- **Total Cost of Ownership (TCO)**: Long-term costs are more important than short-term savings.
- **Avoiding pitfalls**: Hidden operating costs, qualitative differences and payment terms must be taken into account.
- **Role of the interim manager**: Experts provide support through objective, neutral and methodically sound cost analyses.

Richard Porstmann

Ich bin Interim Manager durch und durch. In jedem meiner Mandate steckt ein Teil an Beratung, Know-how, das ich mitbringe und an meine Auftraggeber transferiere. Als Global Citizen verstehe ich Zusammenhänge länder- und kulturübergreifend und versuche, unseren Planeten durch meine Entscheidungen nicht nur gerechter, sondern auch sicherer und nachhaltiger zu machen. Sicherlich ist es dabei vorteilhaft, dass ich selbst in Brasilien geboren und als Deutsch-Brasilianer in einem internationalen Umfeld, darunter Asien, Südamerika und Osteuropa, gelebt sowie auch an mehreren Produktionsstandorten gearbeitet habe.