Chapter 5 Running Case Assignment: Improving Decision Making: Making the Rent vs. Buy Decision for Hardware and Software

Software skills: Spreadsheet formulas, electronic presentation software (optional)
Business skills: Technology rent vs. buy decision, TCO analysis

This project provides an opportunity for you to help a real-world company make a decision about whether to rent or buy new technology. You'll use spreadsheet software to compare the total three-year cost of licensing and maintaining new manufacturing software or renting the software from an application service provider.

Dirt Bikes would like to implement new production planning, quality control, and scheduling software for use by 25 members of its manufacturing staff. Management is trying to determine whether to purchase the software from a commercial vendor along with any hardware required to run the software or to use a hosted software solution from an application service provider. (The hosted software runs on the ASP’s computer.) You have been asked to help management with this rent vs. buy decision by calculating the total cost of each option over a three-year period.

The costs of purchasing the software (actually for purchasing a license from the vendor to use its software package) include the initial purchase price of the software (licensing fee of $100,000 paid in the first year), the cost of implementing and customizing the software in the first year ($20,000), one new server to run the software (a first-year purchase of $4000), one information systems specialist devoting half of his or her time to supporting the software ($55,000 in full-time annual salary and benefits with a 3% annual salary increase each year after the first year), user training in the first year ($10,000), and the cost of annual software upgrades ($5,000).

The costs of renting hosted software are the rental fees ($2500 annually per user), implementation and customization costs ($12,000 in the first year), and training ($10,000 in the first year).

- Use your spreadsheet software to calculate the total cost of renting or purchasing this software over a three-year period. Identify the lowest-price alternative that meets Dirt Bikes’s requirements.

- What other factors should Dirt Bikes consider besides cost in determining whether to rent or buy the hardware and software?

- (Optional) If possible, use electronic presentation software to summarize your findings for management.