

Cost Avoidance – (“soft savings”) an action taken to reduce future costs, such as replacing parts before they fail and cause damage to other parts. May incur higher (or additional) costs in the short run but the final or life cycle cost would be lower.

Example:

Yuma Zoo would like to expand the camera surveillance to all portions of the zoo due to claims occurring that could have been prevented if monitored. Last year six claims were documented costing the Yuma Zoo a total of \$25,200 (\$4,200/claim). The cost of the Communication equipment is a one-time cost of \$48,000 and a recurring cost for Equipment maintenance and repair of \$12,000. The equipment has a life span of 5 years.

	Cost of Claims (w/out expansion of surveillance)	One time cost of equipment	Recurring cost (equip.maintenance & repair)	Cost avoidance (w/ expansion of surveillance)
Year 1	25,200	48,000	12,000	-34,800
Year 2	25,200	0	12,000	13,200
Year 3	25,200	0	12,000	13,200
Year 4	25,200	0	12,000	13,200
Year 5	25,200	0	12,000	13,200
Total	126,000	48,000	60,000	18,000

The first year there is a high cost for the equipment of (\$34,800) [(savings in the cost of claims – (one time cost + recurring cost))]. However in long run having the expansion of surveillance would save the Yuma Zoo money that would have been spent on claims.

So the cost avoidance or the total Yuma Zoo would save at the end of the 5 years would be \$18,000.