

Warehouse Example (Cost Alternatives)



Karen is evaluating two systems for moving pallets around her warehouse.

Option 1 is to buy a \$30,000 forklift and 500 pallets. The annual salary and benefits of the driver would be \$40,000. O&M costs would be \$3,000 per year and the forklift would last 12 years.

Option 2 is to buy two electric pallet jacks (“walkies”) for \$2000 each and 800 pallets. The annual salary and benefits of the two operators would be \$27,000 each. O&M costs would be \$1000 per year and the walkies would last 4 years.

If the pallets cost \$10 each and must be replaced every two years, which is the best option? Assume an MARR of 8% per year.