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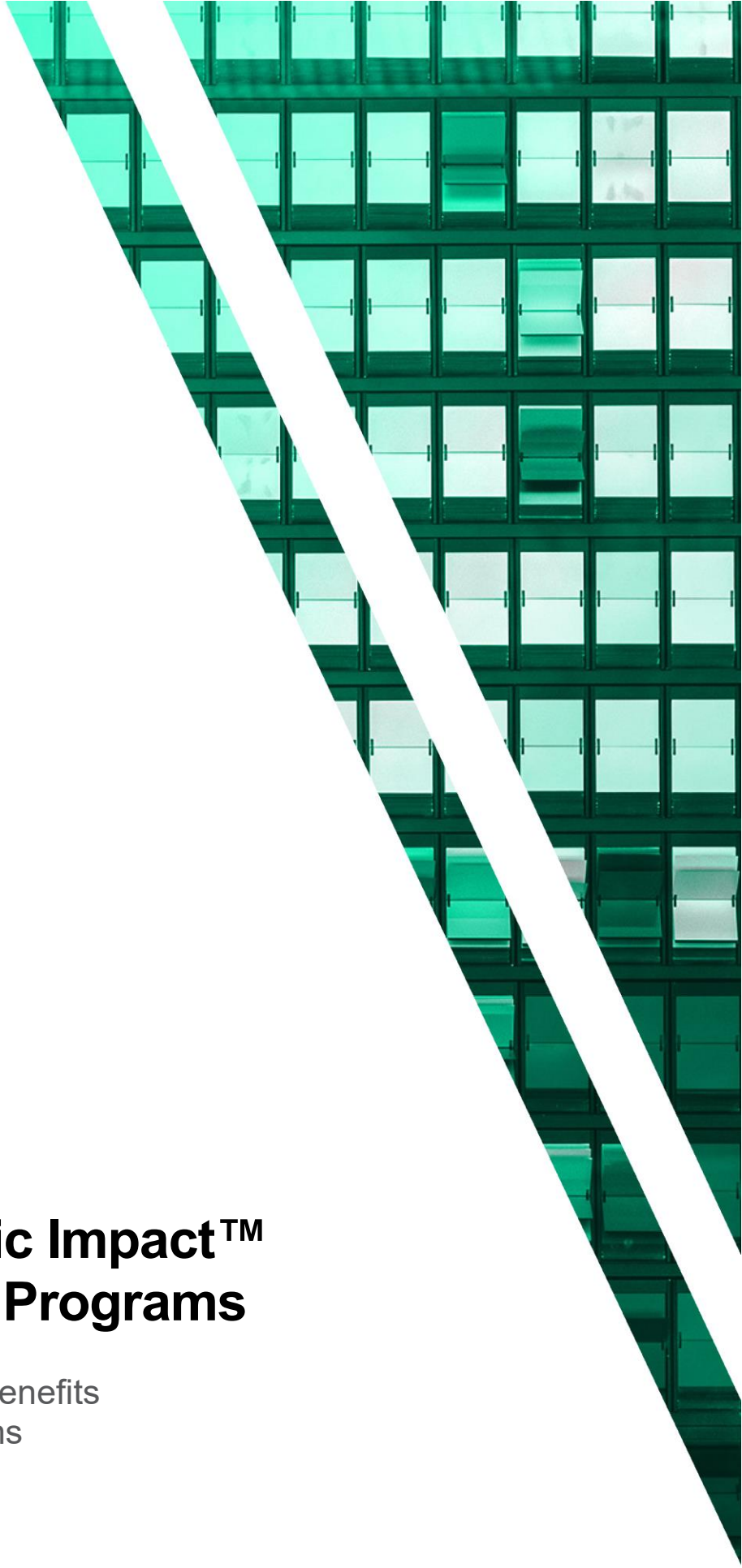

The Total Economic Impact™ Of Flexe Logistics Programs

Cost Savings And Business Benefits Enabled By Logistics Programs

OCTOBER 2021

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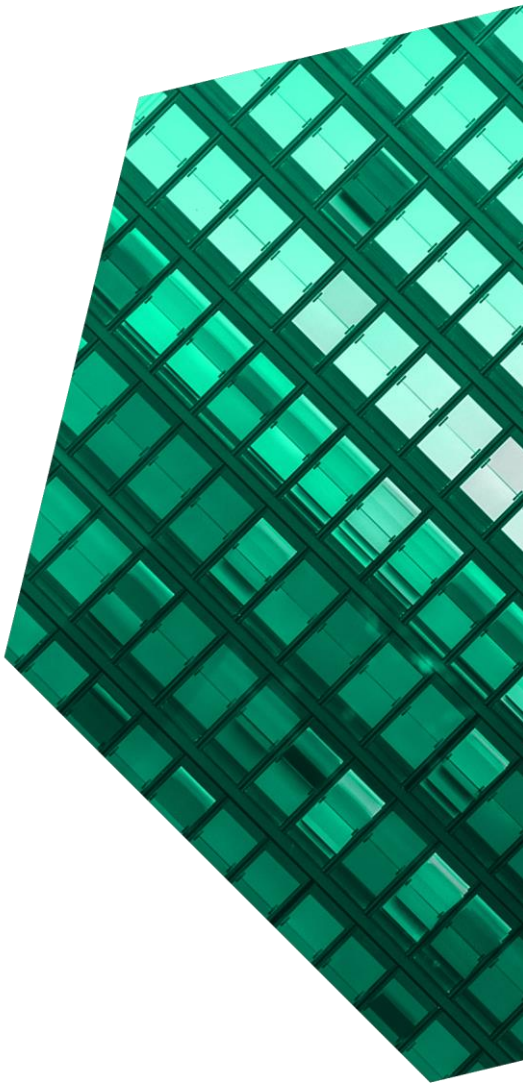


ABOUT FORRESTER CONSULTING

Forrester Consulting provides independent and objective research-based consulting to help leaders succeed in their organizations. For more information, visit forrester.com/consulting.

Executive Summary

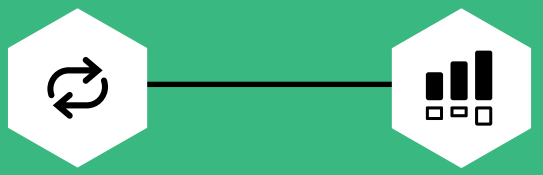
Consumer demands for fast e-commerce delivery and buy online/pick up in-store are increasing dramatically. As a result, retailers and brands recognize the need to rethink supply chain and logistics network investments to align more closely with these demands. Flexe delivers Logistics Programs that help enterprise retailers and brands improve sales, manage inventory replenishment, improve delivery times and costs, and solve network capacity challenges.

Flexe commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) enterprises may realize by deploying Flexe Logistics Programs.[1] The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of Flexe on their organizations.

To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed four customers with experience using Flexe Logistics Programs. For the purposes of this study, Forrester aggregated the interviewees' experiences and combined the results into a single composite organization. This study does not take a comparative or competitive approach, but rather examines the economic impact of adopting Flexe Logistics Programs for the composite organization, based on interviews with Flexe customers.

Prior to engaging with Flexe, the interviewees struggled with inflexible delivery and fulfillment practices with high costs and operational inefficiencies. Building their own fulfillment and distribution centers was time and capital intensive, while utilizing third party logistics (3PL) firms required long lead times and lengthy, fixed cost term agreements.

KEY STATISTICS



Return on investment (ROI)
119%

Net present value (NPV)
$68.85M

These options limited the reach of their distribution and fulfillment networks, leading to high transportation costs and long e-commerce delivery times. Slow delivery times exacerbated online cart abandonment rates and hindered sales growth. The organizations paid for excessive, unused warehouse space and high charges from 3PL partners.

By taking a programmatic approach with Flexe, the interviewed organizations dynamically expanded and contracted their fulfillment networks to meet market conditions. They launched distribution centers closer to retail locations and end customers, shortened inventory replenishment time, improved in-stock rates, delivery times, and reduced last-mile transportation costs by 10%.

KEY FINDINGS

Quantified benefits. Risk-adjusted present value (PV) quantified benefits include:

- **Increased e-commerce revenue by 20%.** Flexe enables organizations to establish new centers quickly and flexibly in their distribution and fulfillment networks. These new centers are closer to end customers, improving delivery times. By reducing fulfillment time to a maximum of two days for 100% of online orders, the composite increases e-commerce sales by 20% annually.
- **Consolidated contracting and implementation cost savings of $9.8 million.** Flexe customers sign a single contract and execute a single technology implementation to expand distribution and fulfillment operations. By consolidating the multiple contracts and integrations required by 3PL partners down to one, costs are significantly reduced.
- **Reduced warehouse operations costs by 12%.** Interviewees told Forrester that Flexe helps them identify more efficient warehouses than those provided by their previous 3PL partners. By optimizing for attributes like warehouse charges and location, interviewees report saving an average of 12% on warehouse operational costs. Flexe also helps retailers identify difficult-to-find warehouses, such as those with experience in unique industries or whose employees have specialized skill sets.
- **As-needed capacity savings of $5.1 million.** Using Flexe allows organizations to pay only for capacity that is utilized. When more capacity is needed, organizations no longer need to overinvest in owned or leased warehouse space. Instead, Flexe enables interviewees to adopt new fulfillment and distribution centers and pay only for the capacity needed over the amount of time needed.
- **Reduced last-mile transportation costs by 10%.** Because organizations can now flexibly add distribution and fulfillment centers at a lower cost, they are able to strategically expand centers. With more distribution and fulfillment centers, goods can move closer to end customers, improving delivery times and reducing last-mile transportation costs by 10%.

Unquantified benefits. Benefits that are not quantified for this study include:

- **Exchanging large, fixed-cost expenditures for variable-cost expenditures**. Interviewees noted that Flexe helps their organizations realize savings by removing high upfront capital expenses and fixed cost investments for building leases, purchases, or 3PL contracts.
- **A single technology platform.** With Flexe, organizations can manage their entire distribution and fulfillment network from one platform, which provides a comprehensive view of inventory and avoids the costs of integrating with and running multiple systems. Flexe also provides performance benchmarking across locations and operators.
- **Speed to launch new centers**. Organizations were able to identify and launch new centers quickly and efficiently with Flexe. This enables them to respond to market conditions and meet increased customer demands when needed via additional fulfillment and distribution centers.
- **Flexible terms, capacity usage, and geographical locations.** Overall, Flexe enables customers to respond faster and more nimbly to changing market conditions than traditional solutions. Without the limitations of fixed locations, fixed capacity, and fixed cost of traditional warehousing models, customers can strategically expand or contract operations in line with market conditions.

Costs. Risk-adjusted PV costs include:

- **System onboarding cost of $31,000.** Organizations reported the costs for technology integration and training of internal employees on Flexe Logistics Platform.
- **Flexe services costs of $57.6 million.** Organizations also noted costs of Flexe services, such as inbound handling costs, pallet storage costs, outbound fulfillment costs, and outbound distribution costs.

The customer interviews and financial analysis found that a composite organization experiences benefits of $126.50 million over three years versus costs of $57.65 million, adding up to a net present value (NPV) of $68.85 million and an ROI of 119%.

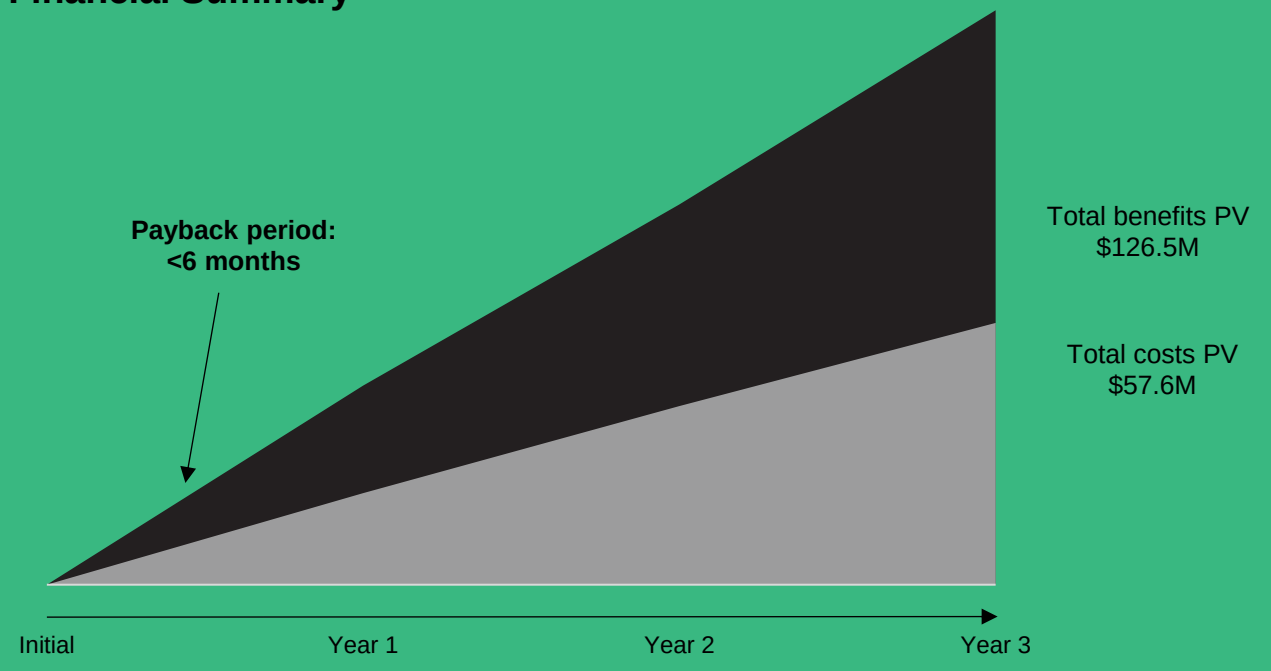
ROI
119%

BENEFITS PV
$126.50M

NPV
$68.85M

PAYBACK
<6 months

Financial Summary



TEI FRAMEWORK AND METHODOLOGY

From the information provided in the interviews, Forrester constructed a Total Economic Impact™ framework for those organizations considering an investment in Flexe Logistics Programs.

The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision. Forrester took a multistep approach to evaluate the impact that Flexe can have on an organization.

DUE DILIGENCE

Interviewed Flexe stakeholders and Forrester analysts to gather data relative to Logistics Programs.

DECISION-MAKER INTERVIEWS

Interviewed four decision-makers at organizations using Logistics Programs to obtain data with respect to costs, benefits, and risks.

COMPOSITE ORGANIZATION

Designed a composite organization based on characteristics of the interviewees' organizations.

FINANCIAL MODEL FRAMEWORK

Constructed a financial model representative of the interviews using the TEI methodology and risk-adjusted the financial model based on issues and concerns of the decision-makers.

CASE STUDY

Employed four fundamental elements of TEI in modeling the investment impact: benefits, costs, flexibility, and risks. Given the increasing sophistication of ROI analyses related to IT investments, Forrester's TEI methodology provides a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

DISCLOSURES

Readers should be aware of the following:

This study is commissioned by Flexe and delivered by Forrester Consulting. It is not meant to be used as a competitive analysis.

Forrester makes no assumptions as to the potential ROI that other organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the study to determine the appropriateness of an investment in Logistics Programs.

Flexe reviewed and provided feedback to Forrester, but Forrester maintains editorial control over the study and its findings and does not accept changes to the study that contradict Forrester's findings or obscure the meaning of the study.

Flexe provided the customer names for the interviews but did not participate in the interviews.

The Flexe Logistics Program Customer Journey

Drivers leading to the Logistics Program investment

Interviewed Decision-Makers			
Company industry	**Interviewee title**	**Annual revenue**	**Number of employees**
E-commerce retail	VP of global logistics	$186 million	125
CPG manufacturing	Procurement director	$70 billion	99,000
Consumer electronics	Global delivery ops lead	$9 billion	55,000
Omnichannel retail	Demand planning manager	$4 billion	10,000

KEY CHALLENGES

The interviewees noted how their organizations struggled with common challenges, including:

- **Inability to meet consumer demands.** Inventory replenishment and e-commerce delivery times were often too slow. Retailers were unable to guarantee delivery times because fulfillment centers were distant from retail locations and end customers. The interviewees reported losing sales both because they could not replenish inventory to retail locations fast enough and because end customers abandoned online shopping carts due to slow delivery times.
- **High upfront capital expenditures and long lead times.** Launching new distribution and fulfillment centers required significant capital investment and long lead times. New locations or 3PL contracts required fixed upfront costs and long-term commitments. The interviewees needed a more flexible solution that could scale with demand at any given time. When the organizations purchased fixed infrastructure, they frequently had excess capacity or a capacity shortage, depending on market conditions.
- **Limited space for expansion.** The interviewees' organizations wanted to expand their fulfillment and distribution network, but they faced difficulties locating space in the right locations, at competitive prices, and with enough capacity to meet their needs. Traditional solutions' rigid business models and static infrastructure did not provide sufficient flexibility to rapidly adjust to market fluctuations.
- **High costs and complexity from multiple vendors and warehouse management systems (WMS).** Previous solutions involved managing multiple vendors and warehouse management systems. This was inefficient and difficult to scale. It also required more resources and staff to manage effectively. With each center managed separately, the organizations were unable to execute a consistent, uniform strategy across fulfillment and distribution centers. This resulted in higher costs for inventory visibility and control, systems integration, warehouse layout and network design.

SOLUTION OBJECTIVES

The interviewees searched for a solution that could:

- **Reduce the amount of upfront capital spent.** Interviewees wanted to shift large, upfront capex costs to ongoing operating expenses that more closely align with the utilization of resources and infrastructure.
- **Add flexibility to respond to market fluctuations.** Interviewees wanted the ability to buy and use more storage capacity during advantageous purchasing periods while reducing costs when less capacity was needed due to market shifts or seasonality.
- **Deliver a uniform WMS across all operating regions.** The organizations sought the ability to manage centers and improve inventory visibility across their entire network, regardless of location or operator, all through a single platform.
- **Consolidate and simplify logistics contracting.** Interviewees also sought contract uniformity to further streamline fulfillment and inventory capacity strategy.

COMPOSITE ORGANIZATION

Based on the interviews, Forrester constructed a TEI framework, a composite company, and an ROI analysis. The composite organization is representative of the four decision-makers that Forrester interviewed and is used to present the aggregate financial analysis in the next section. The composite organization has the following characteristics:

- A global, business-to-consumer retail organization with $5 billion in global revenues ($3 billion in US revenues) and 10,000 employees. This organization has grown e-commerce sales in North America by 20% since implementing Flexe Logistics Programs.
- Provides customer support and service-and-warranty support for its products.

Key assumptions

- **Global B2C retail firm**
- **$5 billion global revenues**
- **Average order value of $100**

- Has both an online and physical retail stores presence but is focused on growing its online business.
- Has an average order value of $100.
- Spends $20 million a year through Flexe for both fulfillment and capacity needs. This spend grows 20% annually to match sales growth.
- Operates out of 10 Flexe-supported centers. All 10 centers operate fulfillment programs, while four also make use of capacity programs. The 10 centers help deliver 90% of e-commerce orders within one day and 100% within two days. Moving from two to 10 fulfillment centers saves the company 10% in final-mile transportation costs.
- Uses Flexe Capacity Programs for seasonal inventory capacity, take advantage of bulk-buy opportunities and dynamically respond to macroeconomic events, such as the COVID-19 pandemic. Capacity usage averages four months per year.
- Uses Flexe Fulfillment Programs to enable a two-day delivery promise to 100% of its customers and reduce fast-growing final-mile transportation costs.

Analysis Of Benefits

Quantified benefit data as applied to the composite

Total Benefits						
Ref.	**Benefit**	**Year 1**	**Year 2**	**Year 3**	**Total**	**Present Value**
Atr	Increased e-commerce income	$32,062,500	$38,475,000	$46,170,000	$116,707,500	$95,633,452
Btr	Reduced cost due to consolidated warehouse contracts	$8,437,500	$1,350,000	$1,350,000	$11,137,500	$9,800,432
Ctr	Reduced warehousing cost	$3,479,400	$3,802,838	$4,308,620	$11,590,858	$9,543,062
Dtr	Reduced final-mile transportation cost	$2,137,500	$2,565,000	$3,078,000	$7,780,500	$6,375,563
Etr	Reduced cost of warehouse capacity	$2,070,000	$2,070,000	$2,070,000	$6,210,000	$5,147,784
	Total benefits (risk-adjusted)	$48,186,900	$48,262,838	$56,976,620	$153,426,358	$126,500,293

INCREASED E-COMMERCE INCOME

Evidence and data. The interviewees' organizations improved their e-commerce business results after implementing Flexe Logistics Programs.

- Before using Flexe Logistics Programs, the interviewed organizations experienced high rates of cart abandonment. Research indicated that many buyers were dissatisfied with longer-than-expected delivery times. A VP of global fulfillment at a retail organization explained, "about a year after engaging with Flexe, we saw a 15% drop in cart abandonment and a 20% increase in e-commerce sales. We wholly attribute this to our delivery speed dropping to less than three days anywhere in the country. Our new centers have greatly contributed to this improvement."
- After adopting Flexe, customers added additional centers to their distribution and fulfillment networks at a lower cost than with previous solutions. With more centers, inventory was closer to e-commerce customers and reduced delivery times. Shorter delivery times significantly improved cart conversion rates.
- The VP of global logistics at an e-commerce company said, "When an order comes in from a customer in Seattle, the order is automatically sent to the closest Flexe warehouse to be fulfilled."

"About a year after engaging with Flexe, we saw a 15% drop in cart abandonment and a 20% increase in eCommerce sales. We wholly attribute this to our delivery speed dropping to less than 3 days anywhere in the country. Our new hubs have greatly contributed to this improvement."
— VP of global fulfillment, retail

Modeling and assumptions. Based on customer interviews, Forrester estimates the following for the composite organization:

- The composite organization has annual sales growth of 20%.
- Sales in the US account for 60% of global sales.
- E-commerce sales account for 45% of U.S. sales.
- Using Flexe Logistics Programs, the composite improves its delivery promise to customers, reducing e-commerce cart-abandonment rates. This improves sales by 20% annually.
- The composite has a profit margin of 15%.

Risks. The exact results realized in relation to Forrester's model will vary with the level of improvement to delivery times compared with previous operations.

Results. To account for these risks, Forrester adjusted this benefit downward by 5%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of $95.6 million.

Increased E-commerce Income

Ref.	Metric	Source	Year 1	Year 2	Year 3
A1	Global sales (20% annual growth)	Interviews	$5,000,000,000	$6,000,000,000	$7,200,000,000
A2	US sales (60% of global sales)	Interviews	$3,000,000,000	$3,600,000,000	$4,320,000,000
A3	E-commerce sales (45% of US sales)	Interviews	$1,350,000,000	$1,620,000,000	$1,944,000,000
A4	Increased revenue because of new hubs and two-day max fulfillment (20% improvement)	A3-(A3/1.2)	$225,000,000	$270,000,000	$324,000,000
A5	Increased e-commerce income (15% profit margin)	A4*15%	$33,750,000	$40,500,000	$48,600,000
At	Increased e-commerce income	A5	$33,750,000	$40,500,000	$48,600,000
	Risk adjustment	↓5%			
Atr	Increased e-commerce revenue		$32,062,500	$38,475,000	$46,170,000
	Three-year total: $116,707,500			**Three-year present value: $95,633,452**	

REDUCED COST DUE TO CONSOLIDATED WAREHOUSE CONTRACTS

Evidence and data. The interviewees reported using Flexe to reduce their costs associated with contracting, implementation, and site management through 3PL providers.

- Before working with Flexe, the interviewed organizations struggled with both the capex and the fixed cost of traditional solutions. This prevented the interviewees' organizations from adjusting to market demands, resulting in missed revenue opportunities and increased costs.
- After using Flexe Logistics Programs, organizations more quickly adapted to changing customer demand. Interviewees told Forrester that working with Flexe helped them access facilities that they could not previously afford. Having a single partnership with Flexe provided access to a vast network of warehouses, accelerating their entry into new markets.

The VP of global logistics at an e-commerce retailer said: “The real differentiation is that as a Flexe customer, it was a very fast, low-cost entry to get warehouse space from which we could do fulfillment or hold inventory. I don’t have to sign a multiyear contract and set aside millions of dollars from day one.”

Another interviewee told Forrester: “Flexe allows you to move fast, especially on the systems engineering side. Once you integrate with their platform, it’s very easy to add additional centers.”

- Interviewees’ organizations reduced their use of 3PL services, saving time on 3PL management and gaining holistic visibility into their distribution and fulfillment networks. For example, one interviewee expressed how her organization reduced costs by not managing individual relationships with multiple 3PLs. Once the organization engaged with Flexe, it tapped into the entire network and more easily customized its needs.

Modeling and assumptions. Based on customer interviews, Forrester estimates the following for the composite organization:

- Each contract with an individual warehouse provider is $140,000 in Year 1. This accounts for a fully burdened cost for site identification, site visits, contract negotiations, legal reviews, and other costs in the first year. Additionally, the composite pays $50,000 per year in Year 2 and Year 3 for contract and performance reviews, as well as for addressing operational challenges.
- Using traditional 3PLs or leases, the composite incurs an additional first-year cost of $800,000 per individual warehouse provider to account for WMS integration and other IT implementation costs. For the next two years of the engagement, Forrester assumes a yearly cost of $100,000 for systems upgrades and maintenance.

“Once I integrate with the Flexe Logistics Platform, I can get a new location up and running in two to four weeks.”
— VP of global logistics and fulfillment, retail.

- Customers incur an estimated $25,000 of employee labor cost to integrate with Flexe.

Other associated general costs can be found in the Analysis of Costs section below.

Risks. This benefit can vary from organization to organization due to the following factors:

- The size of organization, as warehousing contracts can vary by more than 60% depending on the size of the firm entering negotiations.
- Other variables, including lease duration, capacity volumes, and the complexity of specific fulfillment demands, all of which will influence the magnitude of this benefit.

Results. To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of $9.8 million.

Reduced Cost Due To Consolidated Warehouse Contracts					
Ref.	**Metric**	**Source**	**Year 1**	**Year 2**	**Year 3**
B1	Average cost per contract with individual warehouse providers	Interviews	$140,000	$50,000	$50,000
B2	Average IT implementation and onboarding cost per contract	Interviews	$800,000	$100,000	$100,000
B3	Number of hubs used	Composite	10	10	10
B4	Cost of contracting with individual Warehouse providers	(B1+B2)*B3	$9,400,000	$1,500,000	$1,500,000
B5	Average onboarding cost with Flexe	Interviews	$25,000	$0	$0
Bt	Reduced cost due to consolidated warehouse contracts	B4-B5	$9,375,000	$1,500,000	$1,500,000
	Risk adjustment	↓10%			
Btr	Reduced cost due to consolidated warehouse contracts (risk-adjusted)		$8,437,500	$1,350,000	$1,350,000
	Three-year total: $11,137,500			**Three-year present value: $9,800,432**	

REDUCED WAREHOUSING COST

Evidence and data. Interviewees reported additional cost savings associated with the scalability of Flexe Logistics Programs compared with previous solutions, including:

- Before working with Flexe, the interviewed organizations were using 3PL partners to meet delivery and fulfillment expectations. These partners charged fixed rates regardless of volumes, market demands and changing business and customer requirements.
- With Flexe, the organizations avoided unexpected operational fees. Flexe helped find optimal warehouses based on cost, location, organization needs, labor availability and employee skill set. As a result, the interviewed organizations reported an average savings of 12% annually in warehouse operations costs.
- The CPG procurement director noted: “Normally, Flexe has been about 10% to 15% less expensive compared to 3PLs that we have worked with – specifically, the handling and operations cost, storage space, and similar.”

Modeling and assumptions. Based on customer interviews, Forrester estimates the following for the composite organization:

- Modeling of this benefit shows both capex and opex options described by interviewees. For warehouse operating costs, Forrester assumes a baseline spend of almost $23 million in Year 1. Forrester applied 60% toward opex paid to 3PLs and 40% for capex toward capital-carrying costs.
- Interviewees reported saving 5% using Flexe compared to annual capital carrying costs.

“Before Flexe, we had a lot of unanticipated costs associated with our distribution operations.” *— Demand planning manager, retail.*

- Values are compounded using a 7% cost of capital (given that Forrester's financial model discounts future years based on the time value of money).
- Interviewees reported saving 12% using Flexe compared to 3PLs.
- Forrester also modeled the operating costs of the warehouses (e.g., staffing, equipment, and so forth). Interviewees reported that these costs were 5% lower using Flexe.

Risks. This benefit can vary from organization to organization due to the following factors:

- Warehouse operating cost savings may vary by geographic location. For example, some high-demand areas may have significantly higher costs than those used in the model.
- Operating costs also fluctuate with the nature of the merchandise being handled (e.g., fragility, dimensions, toxicity, etc.).

Results. To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of $9.5 million.

Reduced Warehousing Cost

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
C1	Baseline spend per year	5% annual growth		$23,000,000	$24,150,000	$25,357,500
C2	Warehouse spending with 3PLs (60% of total)	C1*60%		$13,800,000	$14,490,000	$15,214,500
C3	Savings by shifting to Flexe	C2*12%		$1,656,000	$1,738,800	$1,825,740
C4	Percent of spend related to internal warehouses	C1*40%		$9,200,000	$9,660,000	$10,143,000
C5	Warehouse spending on capitalized facilities (40% of total)	Interviews	$25,000,000			
C6	Avoided cost of capital (compounded for future value)	C4*7%		$1,750,000	$2,003,575	$2,454,466
C7	Avoided operating cost of owned warehouses	C4*5%		$460,000	$483,000	$507,150
Ct	Reduced warehousing cost	C3+C6+C7	$0	$3,866,000	$4,225,375	$4,787,356
	Risk adjustment	↓10%				
Ctr	Reduced warehousing cost (risk-adjusted)		$0	$3,479,400	$3,802,838	$4,308,620
	Three-year total: $11,590,858			**Three-year present value: $9,543,062**		

REDUCED FINAL-MILE TRANSPORTATION COST

Evidence and data. Organizations that use Flexe also experience cost savings associated with their last-mile transportation costs.

- Before Flexe, the costs and network limitations for both owned and 3PL warehousing options inhibited organizations from expanding their distribution and fulfillment centers. Costs and inflexibility reduced the ability to place network centers closer to retail locations and end customers.
- A key principle is that the further a package travels, the less reliable delivery guarantees are and the more it costs. Moving inventory closer to customers lowers final-mile costs and increases delivery promise reliability.
- With Flexe, organizations aligned their fulfillment networks to shifting business needs by changing the number of centers and geographic proximity to retail locations and end customers. Geographic proximity reduced last-mile transportation costs.
- Organizations are able to reduce last-mile delivery costs with Flexe by approximately 10%. At the same time, industry projections on the cost of the final mile are usually double-digit percentages (higher than a 10% increase).

Modeling and assumptions. Based on customer interviews, Forrester estimates the following for the composite organization:

- The composite organization has global sales of $5 billion, of which 60% are US sales.
- The composite previously paid last-mile transportation costs equaling 0.75% of U.S. sales.
- Flexe reduced these costs by 10%.

Risks. This benefit can vary from organization to organization due to the following factors:

- The size of the existing distribution and fulfillment network.
- Customer location and how geographically dispersed an organization's customer base is.
- The type and size of inventory delivered and the fluctuation in fuel prices.

Results. To account for these risks, Forrester adjusted this benefit downward by 5%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of more than $6.3 million

Reduced Final-Mile Transportation Cost

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
D1	Global sales (5% annual growth)	Interviews		$5,000,000,000	$6,000,000,000	$7,200,000,000
D2	US sales (60% of global sales)	Interviews		$3,000,000,000	$3,600,000,000	$4,320,000,000
D3	Transportation cost (0.75% of US sales)	D2*0.75%		$22,500,000	$27,000,000	$32,400,000
D4	Percentage of improvement attributable to Flexe	Interviews		10%	10%	10%
Dt	Reduced final-mile transportation cost	D3*D4	$0	$2,250,000	$2,700,000	$3,240,000
	Risk adjustment	↓5%				
Dtr	Reduced final-mile transportation cost (risk-adjusted)		$0	$2,137,500	$2,565,000	$3,078,000
	Three-year total: $7,780,500			**Three-year present value: $6,375,563**		

REDUCED COST OF WAREHOUSE CAPACITY

Evidence and data. Interviewees reported additional cost savings associated with the scalability of Flexe Logistics Programs compared with previous solutions.

- Before Flexe, customers were locked into long-term contracts that prevented network growth and adjustments due to seasonality and other changes in market demands. Interviewees noted sunk costs related to unused real estate that would be difficult to exit and then re-acquire when demand rose again.
- With Flexe, the interviewees were able to right-size their distribution and fulfillment infrastructure to meet changing demand. This meant using and paying only for the capacity they need, without being tied to long-term contracts. Interviewees liked that through a single agreement with Flexe, they could have access to multiple locations without having individual leases that risked leading to excess capacity.
- One interviewee said: "Flexe is able to find and work with different 3PL providers. I don't have to pay for all the real estate if I don't need to occupy an entire million-square-foot building. I can have a warehouse that is in a big building like that or a very small privately owned warehouse. It's wherever there is space and where Flexe is operational."
- The demand planning manager at an omnichannel retailer shared: "We use Flexe a lot for overstock. Our business is highly seasonal, and we don't need all our space all of the time. When we need capacity, we turn to Flexe because we can use space in multiple warehouses in multiple regions for as long as we need to manage inventory surges."

Modeling and assumptions. Based on customer interviews, Forrester estimates the following for the composite organization:

> **"Flexe provides the technology, the WMS. I could have more than one Flexe warehouse and still use the same software to manage them all. If I go to multiple 3PLs, and I want a warehouse in Central, West and East and they're different companies, they're all on different systems, require individual integrations, and will require me to pay for more capacity than I may need at each location."**
> *— VP Global Logistics, eCommerce.*

- The composite utilizes a Flexe Capacity Program in addition to an ongoing fulfillment program.
- For the capacity program, Forrester models a cost per square foot of $1.15 for the composite's maximum monthly needed capacity of 250,000 square feet. The cost per square foot is based on a weighted national average, as the composite uses multiple distribution and fulfillment centers across the US.
- The composite organization utilizes this capacity for only four months per year to address seasonality in its business.

Risks. This benefit can vary from organization to organization due to the following factors:

- The type of inventory will vary greatly between organizations. Those with standard-sized products may use less capacity than those with irregular-sized or bulky inventory.

- Warehousing costs can be seasonal for some inventory (e.g., inventory that needs to be cooled during hot weather or kept from freezing during winter months).

Results. To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of more than $5.1 million.

Reduced Cost Of Warehouse Capacity

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
E1	Average monthly capacity cost per square foot	Interviews		$1.15	$1.15	$1.15
E2	Average max capacity needed per month	Interviews		250,000	250,000	250,000
E3	Average months capacity is needed per year	Interviews		4	4	4
E4	Capacity cost without Flexe (max capacity year-round)	Interviews E1*E2*12		3,450,000	3,450,000	3,450,000
E5	Capacity cost with Flexe (only in months needed)	E1*E2*E3		1,150,000	1,150,000	1,150,000
Et	Reduced cost of warehouse capacity	E4-E5	$0	$2,300,000	$2,300,000	$2,300,000
	Risk adjustment	↓10%				
Etr	Reduced cost of warehouse capacity (risk-adjusted)		$0	$2,070,000	$2,070,000	$2,070,000
	Three-year total: $6,210,000			**Three-year present value: $5,147,784**		

UNQUANTIFIED BENEFITS

Additional benefits that customers experienced but were not able to quantify include:

- **Exchanging high, fixed, and upfront costs for predictable operating costs.** Flexe makes it possible for customers to plug into a preexisting network of distribution and fulfillment centers, substituting high upfront fixed costs with a transactional cost model. Interviewees reported paying only for the space and services they need when they need them.

  Interviewees shared that Flexe expenses could be spread out over years, releasing capital for other strategic uses. Although unquantified for this benefit, interviewees noted the strategic importance of this cost model to growing their businesses, as it made it possible to further expand their network without increasing costs.

- **A centralized WMS technology platform.** Interviewees benefited from connecting to a single WMS for their entire distribution and fulfillment network. With Flexe, organizations operate under a single contract with a single implementation for their entire network, gaining visibility across the entire network. This includes customized reporting and analytics and the ability to effectively benchmark performance across warehouse operators.

- **Speed to launch new centers.** Interviewees noted how quickly Flexe enabled them to launch additional distribution and fulfillment centers. One interviewee shared that their organization stood up multiple new centers in less than two months without the need for searching, investigation, or due diligence; technology integrations; onboarding; or launch operations. Launching new centers enables organizations to meet customer demand faster and at a lower marginal cost.

FLEXIBILITY

The value of flexibility is unique to each customer. There are multiple scenarios in which a customer might implement Flexe Logistics Programs and later realize additional uses and business opportunities, including:

- **Adjustable lease terms, space used, and geographical locations.** Unlike traditional solutions with multiyear leases or term agreements with direct warehouse operators, Flexe allows customers to enter into agreements with no fixed term lengths. Interviewees told Forrester that Flexe programs grow with their businesses and help them adapt to dynamic market conditions.
- **Same-day delivery.** Interviewed organizations also noted that for certain locations and customers, Flexe enabled them to offer same-day delivery. While this reduced cart abandonment and improved sales by an unquantified amount, it more importantly enabled the organizations to compete directly with other online retailers' delivery promises.
- **Continuous optimization with the Flexe logistics and engineering teams.** Flexe offers a logistics team to help customers design, implement, manage, and drive continuous optimization of their logistics networks. Additionally, Flexe's industrial engineering team can be engaged for MHE recommendations, warehouse layout and pick path optimization. Technical integration, maintenance, and platform upgrades are all included as part of all Flexe engagements.

  The Flexe Logistics Operations teams allow interviewees to focus on meeting customer demands rather than constantly analyzing and optimizing their logistics network or maintaining and upgrading their distribution and fulfillment technologies.

Flexibility would also be quantified when evaluated as part of a specific project (described in more detail in Appendix A).

Analysis Of Costs

Quantified cost data as applied to the composite

Total Costs

Ref.	Cost	Initial	Year 1	Year 2	Year 3	Total	Present Value
Ftr	Integration and training	$29,533	$1,016	$1,016	$0	$31,566	$31,297
Gtr	Flexe services cost	$0	$22,116,766	$23,222,605	$24,383,734	$69,723,105	$57,618,247
	Total costs (risk-adjusted)	$29,533	$22,117,783	$23,223,621	$24,383,734	$69,754,671	$57,649,544

INTEGRATION AND TRAINING

Evidence and data. The interviewed organizations incurred a labor cost of $25,000 to integrate with the Flexe Logistics Platform. Interviewees also required internal employees to train on how to operate and manage the Flexe Logistics Platform.

Modeling and assumptions. Based on customer interviews, Forrester estimates the following for the composite organization:

- The composite organization trains 14 employees to manage Flexe at 10 centers.
- Forrester models a 50% attrition rate for trained employees to account for promotions or trained employees leaving the company.
- Forrester models a 5% annual increase in training cost to account for pay rate increases and refresher training on system upgrades.

Risks. The risks are minor and vary only with differing salary ranges and attrition rates in different geographies.

Results. To account for these risks, Forrester adjusted this cost upward by 10%, yielding a nominal, three-year, risk-adjusted total PV (discounted at 10%) of $31,000.

Integration And Training

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
F1	Cost to integrate with existing technology	Interviews	$25,000			
F2	Number of employees trained 50% annual attrition	Composite	14	7	7	
F3	Number of hours training	Interviews	6	6	6	
F4	Average hourly fully burdened rate	$22	$22	$22	$22	
Ft	Integration and training	F1+F3*F2	$26,848	$924	$924	$0
	Risk adjustment	↑10%				
Ftr	Integration and training (risk-adjusted)		$29,533	$1,016	$1,016	$0
	Three-year total: $31,566			**Three-year present value: $31,297**		

FLEXE SERVICES COST

Evidence and data. The interviewees shared experiencing several costs associated with their investment in Flexe, including:

- Inbound handling costs based on unloading inventory from trucks, receiving it into the warehouse, and putting it away in the location.
- Pallet storage costs based on holding inventory over a given period.
- Outbound fulfillment costs based on order processing, picking up from warehouse locations, sorting, breakdown, selecting for individual orders, packaging, labeling, and any other task needed to service e-commerce purchases.
- Outbound distribution costs based on bulk shipments and picking and loading of pallets or other large shipments to retail locations, distribution centers, or other centers.

Modeling and assumptions. Based on customer interviews, Forrester estimates the following for the composite organization:

- Forrester calculated a weighted average cost to account for the volume of activity at each center across the country.
- Flexe provided costs for various markets across the country.
- Forrester added 5% annual growth to account for pay rate increases and inflation.

Risks. This cost can vary from organization to organization due to factors such as rate differences in various geographies, seasonal fluctuations in demand, and the type of inventory.

Results. To account for these risks, Forrester adjusted this cost upward by 10%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of less than $58 million.

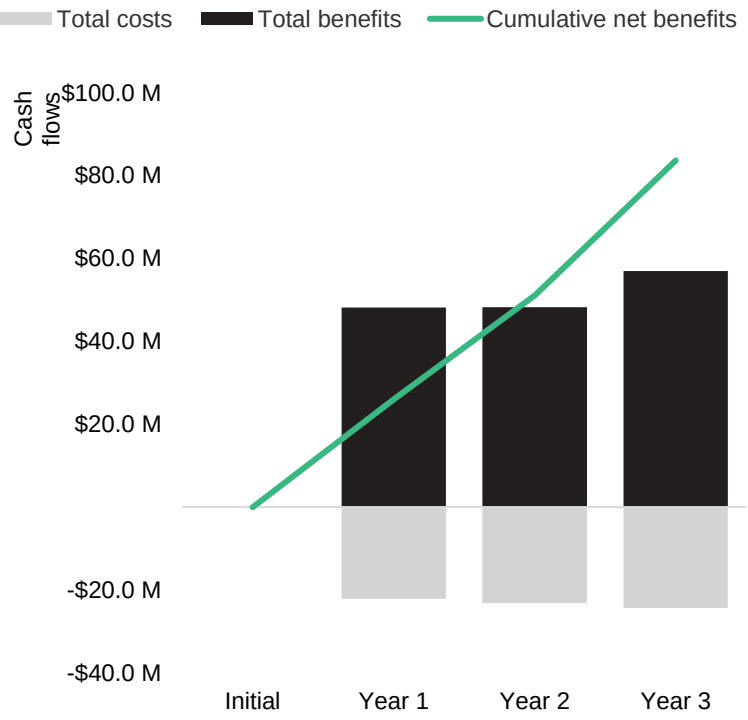
Flexe Services Cost

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
G1	Inbound handling cost 5% annual growth	Flexe		$183,986	$193,185	$202,844
G2	Inventory storage (bulk) 5% annual growth	Flexe		$4,565,418	$4,793,689	$5,033,373
G3	Flexe fulfillment outbound 5% annual growth	Flexe		$15,329,017	$16,095,468	$16,900,241
G4	Flexe distribution outbound 5% annual growth	Flexe		$27,730	$29,117	$30,573
Gt	Flexe services cost	G1+G2+G3+G4	$0	$20,106,151	$21,111,459	$22,167,031
	Risk adjustment	↑10%				
Gtr	Flexe services cost (risk-adjusted)		$0	$22,116,766	$23,222,605	$24,383,734
	Three-year total: $69,723,105			**Three-year present value: $57,618,247**		

Financial Summary

CONSOLIDATED THREE-YEAR RISK-ADJUSTED METRICS

Cash Flow Chart (Risk-Adjusted)



The financial results calculated in the Benefits and Costs sections can be used to determine the ROI, NPV, and payback period for the composite organization's investment. Forrester assumes a yearly discount rate of 10% for this analysis.

These risk-adjusted ROI, NPV, and payback period values are determined by applying risk-adjustment factors to the unadjusted results in each Benefit and Cost section.

Cash Flow Analysis (Risk-Adjusted Estimates)

	Initial	Year 1	Year 2	Year 3	Total	Present Value
Total costs	($29,533)	($22,117,783)	($23,223,621)	($24,383,734)	($69,754,671)	($57,649,544)
Total benefits	$0	$48,186,900	$48,262,838	$56,976,620	$153,426,358	$126,500,293
Net benefits	($29,533)	$26,069,118	$25,039,216	$32,592,886	$83,671,687	$68,850,749
ROI						119%
Payback						<6 months

Appendix A: Total Economic Impact

Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

TOTAL ECONOMIC IMPACT APPROACH

Benefits represent the value delivered to the business by the product. The TEI methodology places equal weight on the measure of benefits and the measure of costs, allowing for a full examination of the effect of the technology on the entire organization.

Costs consider all expenses necessary to deliver the proposed value, or benefits, of the product. The cost category within TEI captures incremental costs over the existing environment for ongoing costs associated with the solution.

Flexibility represents the strategic value that can be obtained for some future additional investment building on top of the initial investment already made. Having the ability to capture that benefit has a PV that can be estimated.

Risks measure the uncertainty of benefit and cost estimates given: 1) the likelihood that estimates will meet original projections and 2) the likelihood that estimates will be tracked over time. TEI risk factors are based on "triangular distribution."

The initial investment column contains costs incurred at "time 0" or at the beginning of Year 1 that are not discounted. All other cash flows are discounted using the discount rate at the end of the year. PV calculations are calculated for each total cost and benefit estimate. NPV calculations in the summary tables are the sum of the initial investment and the discounted cash flows in each year. Sums and present value calculations of the Total Benefits, Total Costs, and Cash Flow tables may not exactly add up, as some rounding may occur.

PRESENT VALUE (PV)

The present or current value of (discounted) cost and benefit estimates given at an interest rate (the discount rate). The PV of costs and benefits feed into the total NPV of cash flows.

NET PRESENT VALUE (NPV)

The present or current value of (discounted) future net cash flows given an interest rate (the discount rate). A positive project NPV normally indicates that the investment should be made, unless other projects have higher NPVs.

RETURN ON INVESTMENT (ROI)

A project's expected return in percentage terms. ROI is calculated by dividing net benefits (benefits less costs) by costs.

DISCOUNT RATE

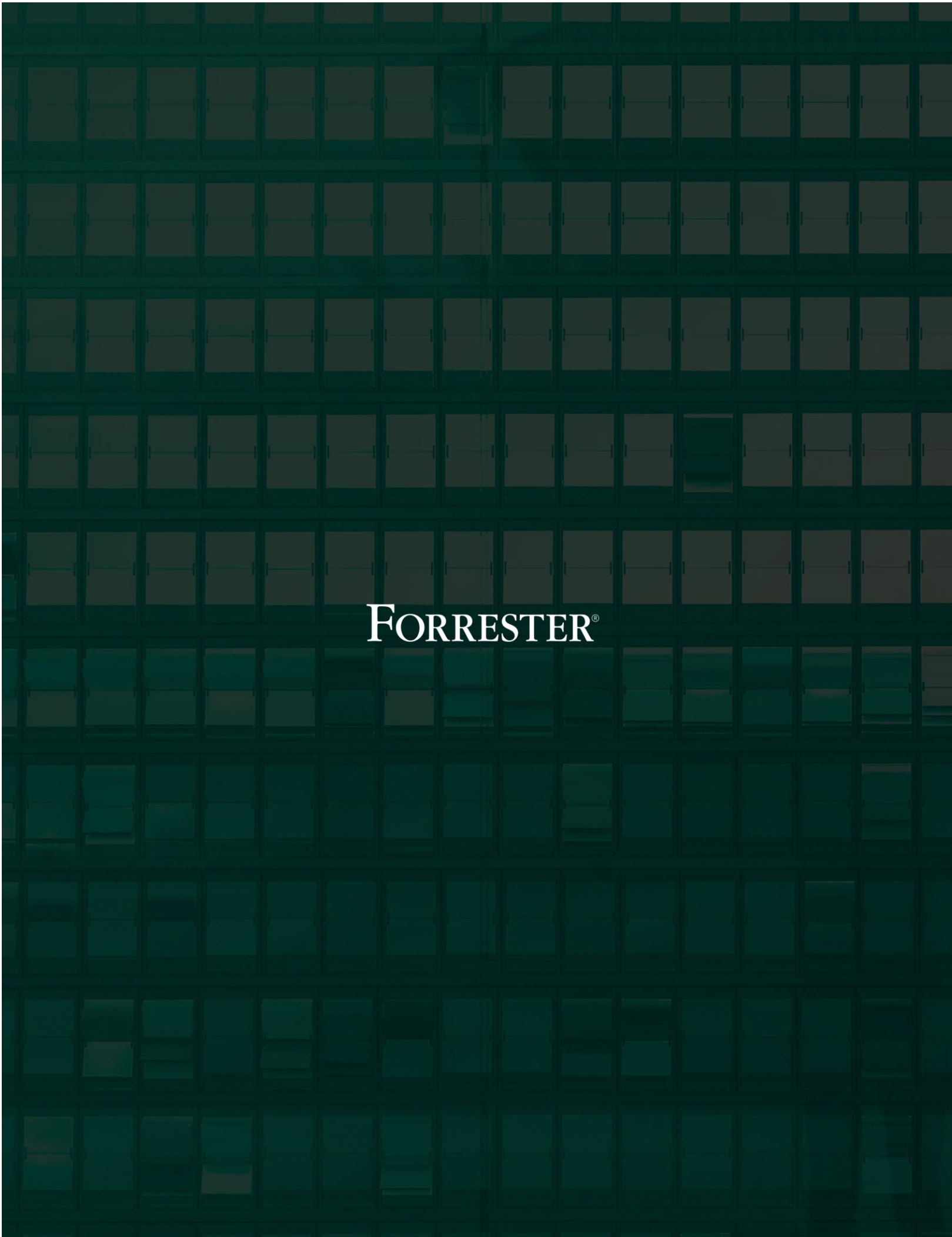
The interest rate used in cash flow analysis to take into account the time value of money. Organizations typically use discount rates between 8% and 16%.

PAYBACK PERIOD

The breakeven point for an investment. This is the point in time at which net benefits (benefits minus costs) equal initial investment or cost.

Appendix B: Endnotes

[1] Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.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