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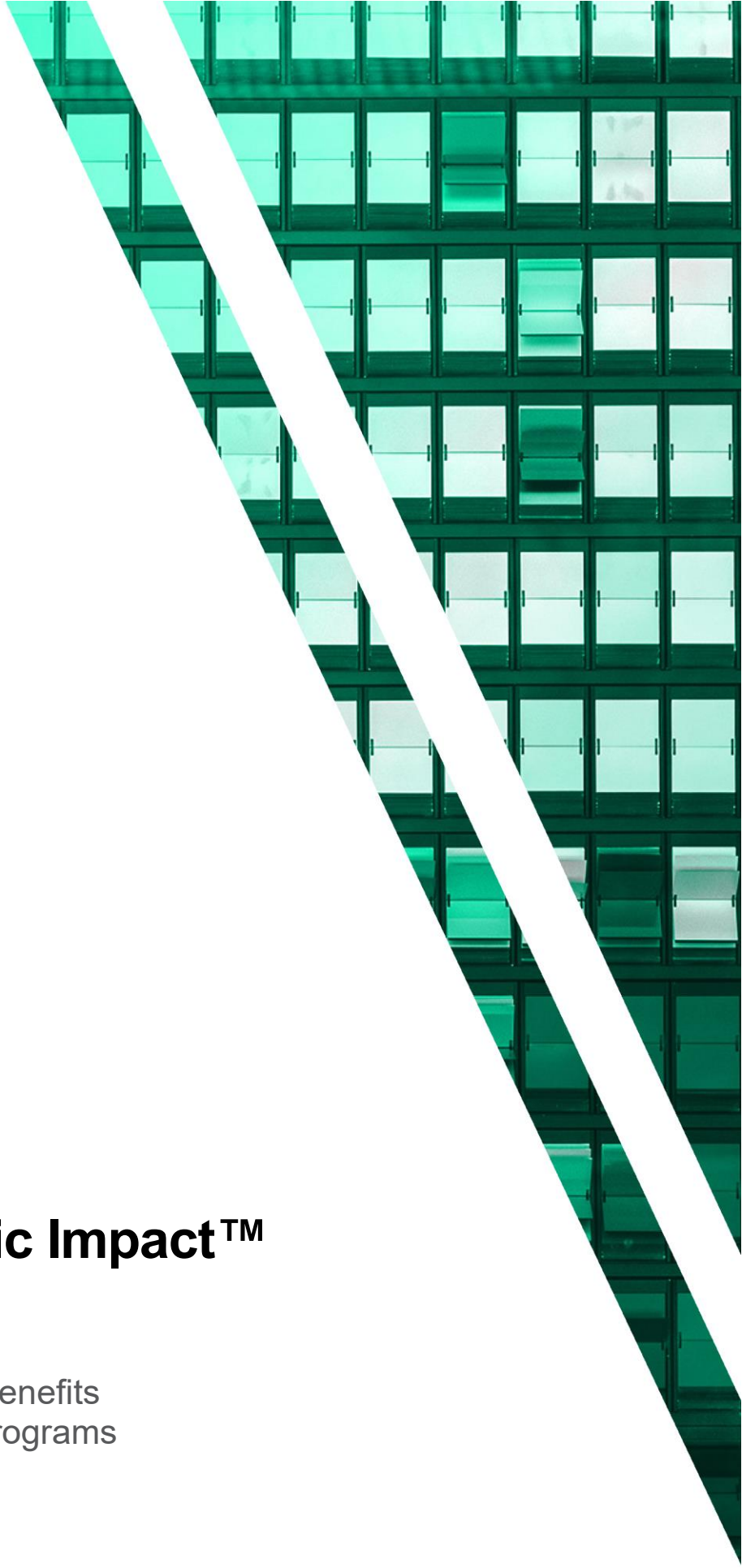

The Total Economic Impact™ Of Flexe

Cost Savings And Business Benefits Enabled By Flexe Logistics Programs

APRIL 2023

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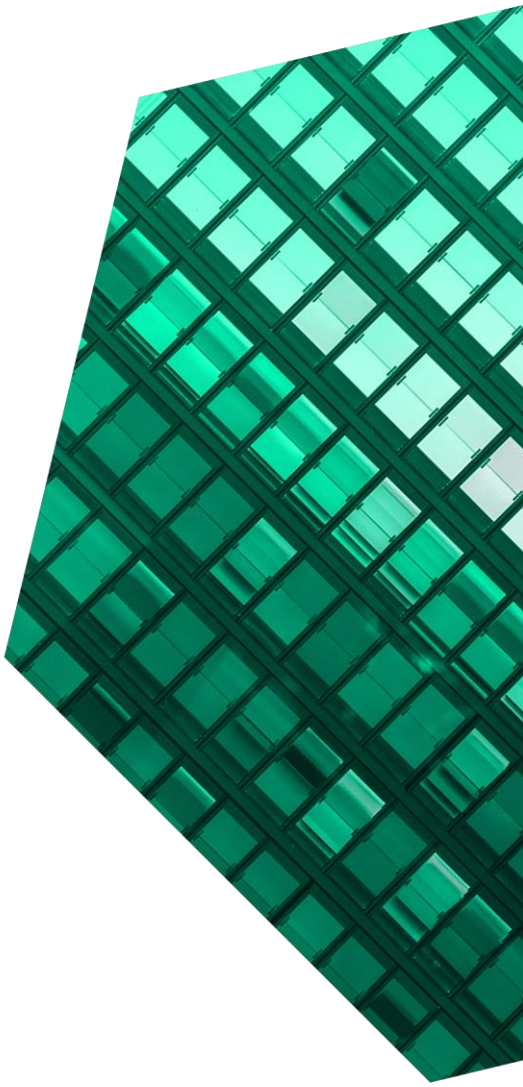


ABOUT FORRESTER CONSULTING

Forrester provides independent and objective research-based consulting to help leaders deliver key transformation outcomes. Fueled by our customer-obsessed research, Forrester's seasoned consultants partner with leaders to execute on their priorities using a unique engagement model that tailors to diverse needs and ensures lasting impact. For more information, visit forrester.com/consulting.

Executive Summary

Consumer demands for fast e-commerce delivery and “buy online, pickup in-store” options are increasing dramatically. As a result, brands recognize the need to rethink supply-chain and logistics network investments to align more closely with these demands and to adjust quickly to market fluctuations and changing cost drivers. Flexe delivers logistics programs that help brands improve sales, manage inventory replenishment, improve delivery times, and solve network capacity challenges.

Flexe Logistics Programs include solutions for distribution, direct-to-consumer (D2C) fulfillment, and capacity storage that support product manufacturers and retailers along their supply chains and across selling channels. Flexe’s programmatic logistics approach offers space and services in a transactional cost model, which allows organizations to avoid the long-term commitments that mark traditional logistics solutions typically secured through assets and leases. Instead, Flexe connects retailers, manufacturers, and brands to a network of warehousing and distribution providers with the Flexe Logistics Platform, which executes inventory, order, and warehouse management.

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

Reduction in new-facility ramp-up time by

At least 50%

KEY STATISTICS

Return on investment (ROI)
124%

Net present value (NPV)
$97.4M

To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed four representatives with experience using Flexe. For the purposes of this study, Forrester aggregated the interviewees’ experiences and combined the results into a single composite organization that is a consumer brand with $3.6 billion in annual US sales that flow through third-party retail, owned retail, and D2C channels.

Prior to engaging with Flexe, the interviewees’ organizations struggled with the high costs and operational inefficiencies of fixed logistics practices. Building their own fulfillment and distribution centers was time- and capital-intensive, and utilizing a variety of third-party logistics (3PL) vendors native to each regional market required long ramp-up times due to sourcing, contract negotiations, IT integrations, and lengthy implementations.

These options limited the speed, flexibility, and reach of the organizations’ distribution and fulfillment

networks, which led to long delivery times, high stockouts, and lost sales. The organizations also paid for unused warehouse spaces under fixed contracts.

By taking a programmatic logistics approach with Flexe, the interviewees' organizations dynamically expanded and contracted their logistics networks to meet market conditions. They launched distribution centers closer to retail locations, shortening inventory replenishment times and improving in-stock rates. They also opened seasonal fulfillment centers closer to end customers, reducing home delivery times. Finally, they improved the efficiency of their operations by consolidating logistics contracts.

KEY FINDINGS

Quantified benefits. Risk-adjusted present value (PV) quantified benefits for the composite organization include:

- **Increase of in-store and e-commerce sales by $47.5 million in Year 1.** By working with Flexe to optimize in-store product replenishment, the composite organization improves inventory turns and reduces restocking time by a week, which increases its in-store sales income by $43.6 million in Year 1. The faster delivery made possible by opening a second D2C fulfillment location on the opposite coast for the fourth quarter boosts the organization's e-commerce income by $3.8 million in Year 1.
- **Reduction of new-facility ramp-up time by 50% or more.** By consolidating its 3PL contracting with a known vendor that provides a universal platform for warehouse network access and benchmarking, the composite cuts its new-facility ramp-up time by at least half. This enhances the organization's ability to respond rapidly and nimbly to market changes and demand opportunities.
- **Avoidance of $19 million in capital costs over three years.** The composite organization adds nine Flexe facilities to its distribution network over a three-year period. By working with Flexe as a programmatic logistics partner instead of undertaking nine new-construction projects, the organization avoids substantial building investments and borrowing costs. By choosing Flexe over new construction, the organization also accelerates the opening of each new facility by two to three years, and it can operate under a more certain timeline.
- **Savings in capacity costs of $3.4 million over three years.** Flexe gives the composite organization the option to use space on an as-needed basis, which allows it to avoid investing in a year-round storage facility when it only needs the space for part of the year.

> **"Flexibility and speed were big considerations. By having our inventory [in the Flexe network], if we see changes in the marketplace and it doesn't work for us in years 3, 4, and 5 the way it worked for us in Year 1, we have the flexibility to change our plans."**
>
> *Manager of logistics design and planning, omnichannel retail*

Unquantified benefits. Benefits that provide value for the composite organization but are not quantified in this study include:

- **Avoidance of production shutdowns.** By working with a programmatic logistics partner that can respond quickly to a need for additional storage space, brands that manufacture their

own products are able to avoid costly and disruptive shutdowns.

- **Allowing for bulk-buy and volume-discount opportunities.** When brands can dynamically ramp up storage capacity and easily shift products from one storage facility to another, they can take advantage of bulk-buy deals from wholesale vendors and storage-volume discounts offered by individual warehouse providers within Flexe's warehouse network.
- **Supporting the ability to test and iterate.** Having a partner that not only responds quickly, but also offers solutions that don't require long-term commitments, allows businesses to make quick decisions, and it gives them a low-risk way to test hypotheses or expand into new markets.
- **Supporting overall resiliency.** Quick responses and flexible commitments also allow organizations to be more nimble, which puts them in a position of strength to respond to unforeseen future threats or crises.

Costs. Three-year, risk-adjusted PV costs for the composite organization include:

- **Integration and training costs totaling $31,600 over three years.** The composite organization pays $31,600 for technology integration and training of internal employees on the Flexe Logistics Platform.
- **Flexe services costs totaling $78.2 million over three years.** The composite organization pays $78.2 million for Flexe services such as inbound handling, pallet storage, outbound fulfillment, and outbound distribution.

The representative interviews and financial analysis found that a composite organization experiences benefits of $175.7 million over three years versus costs of $78.3 million, adding up to a net present value (NPV) of $97.4 million and an ROI of 124%.

"I have no other supplier that moves this quickly to provide warehousing and contractual agreements. Flexe is my benchmark."

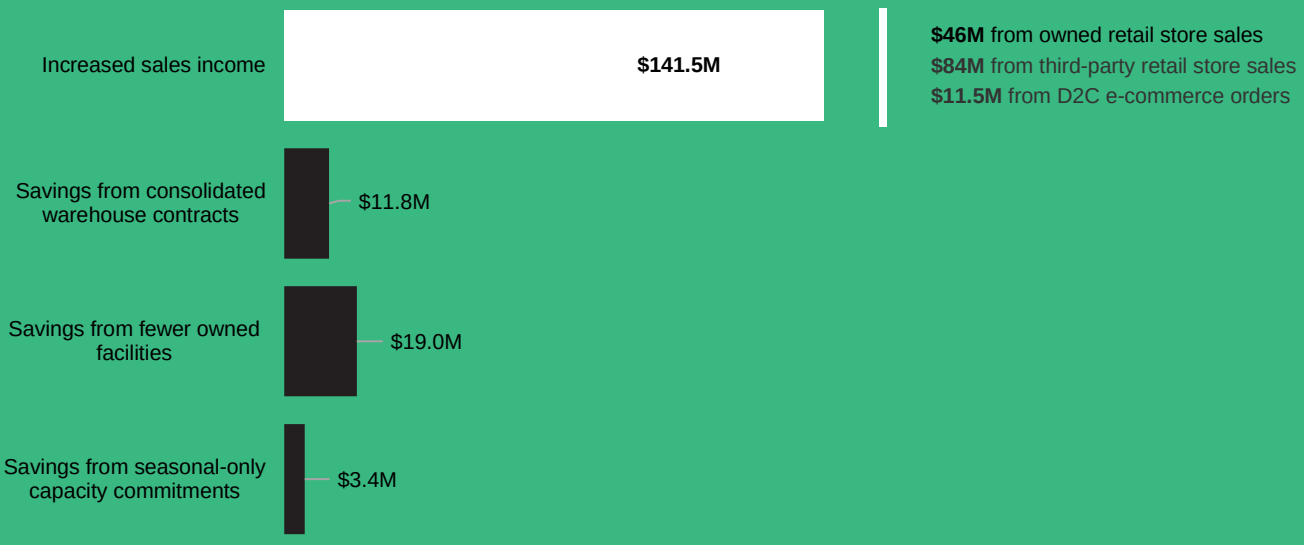
Director of North American purchasing for market operations, CPG

ROI
124%

BENEFITS PV
$175.7M

NPV
$97.4M

Benefits (Three-Year)



$46M from owned retail store sales
$84M from third-party retail store sales
$11.5M from D2C e-commerce orders

“One of the biggest changes in the market since 2021 is the constraint within the global supply chain. What helps us is that we can be nimble. Many of our competitors are like big ships. [By working with Flexe,] we’ve been able to adapt very quickly.”

— Senior VP of global supply chain, D2C retail

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.

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.

The Flexe Customer Journey

Drivers leading to the Flexe investment

Interviews

Role	Industry	Revenue	Primary use case	Flexe nodes
Manager of logistics design and planning	Omnichannel retail	$14.5B	Rapid Replenishment	9
Senior VP of global supply chain	D2C retail	$300M	Dynamic Fulfillment	15
Director of North American purchasing for market operations	CPG	$80B	Dynamic Capacity Storage	10
VP of supply chain and logistics	Omnichannel retail	$8.6B	Dynamic Capacity Storage	10

KEY CHALLENGES

Interviewees noted the high degree of market and demand volatility during the last five years in response to worldwide economic conditions. They said their consumer brands and retail organizations saw a near-overnight pivot from in-store shopping to home delivery in early 2020 around the COVID-19 pandemic and that they then saw a slow but noticeable return to in-store shopping in 2021 as pandemic restrictions waned. They also said there were continual shifts in product choices because supply-chain challenges made certain items unavailable and that 2022 suddenly brought excess inventory as interest rates rose and consumer demand fell.

Interviewees said that in each of these situations, their brands wanted to respond but found that the constraints of traditional approaches to warehousing and logistics often held them back. Interviewees noted the following challenges:

- **Warehousing issues due to lack of space in owned/leased networks, low market vacancy, and high prices.** Interviewees said that as nearly all consumer brands started to run "inventory long," demand for and costs of warehouse space increased while vacancy rates decreased at record levels.

> **"Our biggest challenge was space in our DCs (distribution centers) after huge sales growth in 2020. We had additional DCs planned, but we would have had to start with a flat piece of land, which would have taken two years if we were lucky. The lead time with new construction was our reason to pivot to a third party."**
>
> *Manager of logistics design and planning, omnichannel retail*

- **Long lead times to get new facilities up and running.** When interviewees' companies were able to find leased warehouse spaces, they found that ramp-up times with new 3PL vendors blunted their abilities to rapidly respond to market conditions. Between contract negotiations and software integrations, spin-ups could easily take six months or more, and at that point, consumer demand may have shifted or excess inventory

may have sold. Some organizations also considered new construction, but those looking to build their own facilities faced timelines of two to three years from permitting to completion, not to mention high costs and high degrees of uncertainty due to shortages of labor and materials in the building industry.

- **Loss of in-store sales due to product stock-outs.** As shoppers returned to stores and many started taking advantage of "buy online, pickup in -store" (BOPIS) programs, stock-outs became more of a problem for consumer brands. Distributors and retailers that couldn't restock popular SKUs in near-real time were hit with lost sales, which impacted both current-quarter revenue lines and future brand equity. In this environment, the proximity of warehouses to stores became more important, and brands that previously operated highly centralized distribution networks began to look toward more distributed footprints.
- **Loss of D2C sales due to long shipping times.** Interviewees' brands faced similar losses in e-commerce sales if their product fulfillment centers were too far away from their end customers. When it came to acceptable shipping times, consumer expectations had become more demanding, and increased competition in online retail meant that consumers also had more choices.

SOLUTION REQUIREMENTS/INVESTMENT OBJECTIVES

In response to these challenges, the interviewees' organizations searched for a solution that offered them:

- **Speed.** Interviewees said their companies needed to be able to launch new facilities within a matter of weeks — not months — so market opportunities weren't lost between needs-assessments and go-live dates.
- **Flexibility.** Interviewees said their brands needed to be able to respond rapidly to fluctuating consumer demand patterns as well as unpredictable availability of raw materials for manufacturing. Long-term infrastructure investments and agreements prevented their companies from being able to act on new data and information that might call for a shift in their distribution footprints.
- **The ability to partner nationwide.** Interviewees from large consumer brands said their organizations wanted network logistics partners with locations nationwide so they wouldn't be constrained to specific locations or have to work with multiple vendors in each area of the country.

> **"As a customer, if you see something that's three days out, you're not going to buy it. You'll go to the competitor and order their product instead."**
>
> *Senior VP of global supply chain, D2C retail*

COMPOSITE ORGANIZATION

Based on the interviews, Forrester constructed a TEI framework, a composite company, and an ROI analysis that illustrates the areas financially affected. The composite organization is representative of the four interviewees, and it is used to present the aggregate financial analysis in the next section. The composite organization has the following characteristics:

Description of composite. The composite organization is a consumer brand headquartered in the United States. It generates $3.6 billion in US sales through multiple channels: 55% through third-

party retail, 30% through owned retail, and 15% through D2C sales. Its average order value is $100. The company has experienced and continues to project 20% annual growth in sales.

Deployment characteristics. The composite organization partners with Flexe to support all of its retail channels. It deploys the following Flexe solutions:

- **Rapid Replenishment Program:** This supports the composite's in-store sales by facilitating quick restocking of top SKUs across eight nodes located near top-performing stores. This is an ongoing program.
- **Dynamic Fulfillment Program:** This allows the composite to open one additional fulfillment center, which accelerates shipping times for D2C sales throughout the year and lowers final-mile delivery costs.
- **Peak Demand Fulfillment Program:** This supports the composite organization's fourth-quarter sales surge by having one additional node to support sales for the last four months of the year.
- **Dynamic Capacity Program:** This supports the storage of excess inventory for six- to eight-month periods as needed across two nodes.

The composite organization's total Flexe footprint across a total of 12 nodes distributed nationwide ranges from 600,000 to 1 million square feet per year.

Flexe allows the composite to quickly respond to changing consumer demand by getting products to customers faster, ensuring store in-stock availability, and storing excess products purchased in bulk buys or products awaiting seasonal demand or promotion.

Key Assumptions

- **$6B in global sales**
- **$3.6B in US sales**
- **85% in-store sales**
- **15% D2C sales**
- **Uses 12 Flexe nodes**
- **Requires total space of 600K to 1M square feet**

Analysis Of Benefits

Quantified benefit data as applied to the composite

Total Benefits							
Ref.	**Benefit**	**Initial**	**Year 1**	**Year 2**	**Year 3**	**Total**	**Present Value**
Atr	Increased sales income	$0	$47,452,500	$56,943,000	$68,331,600	$172,727,100	$141,537,509
Btr	Savings from consolidated warehouse contracts	$0	$10,129,500	$1,620,000	$1,620,000	$13,369,500	$11,764,609
Ctr	Savings from fewer owned facilities	$0	$6,736,500	$7,517,004	$8,904,845	$23,158,349	$19,026,833
Dtr	Savings from seasonal-only commitments	$0	$1,350,000	$1,350,000	$1,350,000	$4,050,000	$3,357,250
	Total benefits (risk-adjusted)	$0	$65,668,500	$67,430,004	$80,206,445	$213,304,949	$175,686,201

INCREASED SALES INCOME

Evidence and data. Interviewed executives reported that by taking advantage of Flexe's distribution and fulfillment programs, their organizations increased sales performance across all channels — both in-store and D2C.

- The manager of logistics design and planning for an omnichannel retail company said their organization reduced its store-replenishment lead time by a week and boosted in-store sales by 5% by opening several new "mixing centers" close to top-performing stores. Under this strategy, Flexe's Rapid Replenishment Program supported restocking of top-selling items on an almost-just-in-time basis. The interviewee said: "It's in our values to be a dependable supplier for our customers. It's not just making that sale; it's consistently having what they need in stock whenever they come in."
- The director of North American purchasing for market operations in the CPG industry said their organization opened a new mixing center or a near-site center to support better in-stocks and that this was a key relationship builder with a downstream retail partner. The director said: "[We helped one of our major customers with a stock-out situation] by quickly bringing up a near-site [center] in a trusted and reliable location. To be able to make sure we had inventory there and were ready to ship out to the customer has been very significant. We demonstrated that we could

"With those mixing centers, we're able to keep our top 100 SKUs in the stores, and we're able to drive sales increases because our in-stocks are higher. That mixing center concept delivers product on an as-needed, just-in-time basis. By partnering with Flexe, we were able to get more of those mixing centers up and running."

Manager of logistics design and planning, omnichannel retail

quickly respond and that we had a partner who could quickly respond with us."

- The senior VP of global supply chain for a D2C retail company said their organization used Flexe's Dynamic Fulfillment Program to significantly expand and distribute its fulfillment network beyond a handful of near-port warehouses. This shift enabled it to deliver 97% of its orders nationwide within a two-day window, which was key to its success. The interviewee explained: "Those [organizations] that have survived [in e-commerce sales] are those that have 15 warehouses to ship from. So, when someone buys your product, you're only one or two states away, and it's a very quick one- to two-day delivery. If you only have three warehouses in the US, you're going to fail miserably because your shipment is going further and more things could go wrong to prevent that on-time delivery."
- The same interviewee said their company's sales revenue increased more than 61% within three years: from $186 million to $300 million. He said this impressive growth is partly attributable to fast and reliable shipping and partly due to acquisitions, which he said is a strategy the Flexe partnership also supported. The senior VP said: "In the last year and a half, we've done five acquisitions. We're pretty much taking over another company's supply chain, and we've been very successful at bringing that inventory into Flexe networks across the US and standing up warehouses with certain capabilities very quickly."
- Finally, the same interviewee said their D2C company was also able to increase its sales revenue by working with downstream shipping partners for order fulfillment when those partners offered lower shipping costs. The senior VP said: "The other thing we've done in the last year-and-a-half is bring in goods, do some value-add — which could be labeling, recartonization, or palletizing — and then ship it to our downstream fulfillment partner whose shipping cost is lower than anything we could get. [That offers us] higher profitability, and about half our revenue is generated through that channel. [That's all based on] Flexe's ability to work with us to find warehouses that have that specialty and then build that at scale."

Modeling and assumptions. For the composite organization, Forrester assumes:

- The composite organization starts with $6 billion in global sales in Year 1, and this increases by 20% annually. Of these total revenues, 60% come from US sales, which is broken down as follows: 15% from D2C e-commerce sales, 30% from owned retail sales, and 55% from third-party retail sales.
- Having the additional seasonal Flexe hub for the last four months of the year supports the organization's 20% growth in fourth-quarter sales.
- Being able to quickly restock both owned retail stores and third-party stores via Flexe's mixing centers supports 10% growth for in-store sales across all locations.

"Our primary e-commerce sales channels are driven by just-in-time inventory availability and also forward-stocking inventory closer to the end customers."

Senior VP of global supply chain, D2C retail

Flexibility. Consumer brands may also be able to increase in-store sales because of expanded selling space once excess backstock is moved to a nearby mixing center. The manager of logistics design and planning for the omnichannel retail company said: "Before, our stores would have extremely cluttered back rooms. By working with Flexe to open those mixing centers, we saw a reduction in inventory in our stores' back rooms. They would no longer have to house a week's worth of dog food, for example."

This interviewee's organization did not adjust its store footprints by reallocating space between sales floors and back rooms. Instead, it saw positive results simply by being able to locate back-stocked inventory more easily. Interviewees said brands often measure store performance through sales per square foot, so increasing the total square footage of selling space should lead to higher overall sales through that equation. They also said if a brand is able to display a greater diversity of merchandise, it can enhance visual interest and lead to higher sales.

Risks. Many variables can influence the extent to which consumer brands experience sales growth; product availability is just one factor. Changes in consumer behavior, pricing strategies, and marketing support are just a few examples of other inputs.

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 $141.5 million.

Increased Sales Income

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
A1	Global sales (20% annual growth)	Interviews	$0	$6,000,000,000	$7,200,000,000	$8,640,000,000
A2	US sales (60% of global sales)	Interviews	$0	$3,600,000,000	$4,320,000,000	$5,184,000,000
A3	D2C e-commerce sales (15% of US sales)	Composite	$0	$540,000,000	$648,000,000	$777,600,000
A4	Owned retail sales (30% of US sales)	Composite	$0	$1,080,000,000	$1,296,000,000	$1,555,200,000
A5	Third-party retail sales (55% of US sales)	Composite	$0	$1,980,000,000	$2,376,000,000	$2,851,200,000
A6	Increase in fourth-quarter direct e-commerce sales due to additional seasonal Flexe hub	A3/4*20%	$0	$27,000,000	$32,400,000	$38,880,000
A7	Increase in direct in-store sales due to Flexe hubs	A4*10%	$0	$108,000,000	$129,600,000	$155,520,000
A8	Increase in wholesale sales due to Flexe hubs	A5%*10%	$0	$198,000,000	$237,600,000	$285,120,000
A9	Profit margin	Composite	0%	15%	15%	15%
At	Increased sales income	(A6+A7+A8)*A9	$0	$49,950,000	$59,940,000	$71,928,000
	Risk adjustment	↓5%				
Atr	Increased sales income (risk-adjusted)		$0	$47,452,500	$56,943,000	$68,331,600
	Three-year total: $172,727,100			**Three-year present value: $141,537,509**		

SAVINGS FROM CONSOLIDATED WAREHOUSE CONTRACTS

Evidence and data. Interviewees were in agreement that working with a single partner across multiple markets brought notable efficiencies to their organizations' logistics operations and they said this allowed their companies to bring new facilities online significantly faster.

- The manager of logistics design and planning for the omnichannel retail organization said Flexe is able to reduce ramp-up time by 50% or more. They said: "[With Flexe,] we can get something up and running in a two- to four-week window. Typically, we have more like a two-month window on ramp-up and deployment. So, from need determination to going live, it's very quick."
- The same interviewee explained that one of the bigger factors that contributes to longer ramp-up times with a new logistics provider is IT integration, which is a lengthy process that can be avoided by working with a known partner. He said: "One benefit with Flexe is that [it's a logistics network], so [all of the facilities we work with] have the same Flexe system. So, there's a high comfort level that setting those up are not going to be painful."
- Interviewees said that data link is the backbone of all of the benefits that come from having a nimble and responsive logistics operation. The senior VP of global supply chain for the D2C retail company said: "Having Flexe as a common language allows our software to plug in and manage all these different warehouses in real time. We know what's coming in and what's going out, and we can schedule movement between warehouses."

  As this interviewee also mentioned, that constant movement of product between warehouses is what allows their organization to keep its product as close to end customers as possible and to quickly capitalize on demand opportunities.
- Interviewees said Flexe's nationwide network enables this efficiency for organizations that operate in several regions, but that it also saves organizations from having to research and form multiple sets of commercial real estate (CRE) contacts in different markets. The senior VP of global supply chain for the D2C retail company said: "By working with Flexe, we're able to go to a single provider with multiple locations. And we're able to get into other states [and] other locations through that one relationship."
- The director of North American purchasing for the CPG company echoed this point. She said: "[Having wider access to real-estate providers that we normally couldn't access] reduces our work of going to establish those [contacts]. That is a huge benefit to us." She also added that Flexe's relationships with many specialized warehousing providers makes it a one-stop shop for many needs. She said: "Flexe will react to almost any request, from hazardous storage to material storage to whatever. There's not a delay or a hesitation."
- Finally, interviewees said simply being able to work with the same, experienced contact people over time adds to efficiency and comfort levels. The director of North American purchasing for market operations at the CPG company said: "I appreciate having folks at Flexe who are consistent. Because they learn our business, they know our people and our needs. They have to work with several of our buyers, and they do that very nimbly. They're not confused."

> **"Flexe is definitely a proven provider for us. Their system talks well with our system."**
>
> *Manager of logistics design and planning, omnichannel retail*

Modeling and assumptions. For the composite organization, Forrester assumes:

- Each contract with an individual warehouse provider costs $140,000 in internal due-diligence work 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 warehouse management system (WMS) integration and other IT implementation costs. For the next two years of the engagement, the composite pays $100,000 each year for systems upgrades and maintenance.
- The composite incurs $25,000 in employee labor cost to integrate with Flexe.

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

- The size of the organization, because warehousing contracts can vary by more than 60% depending on the size of the firm entering negotiations.
- Other variables include lease duration, capacity volumes, and the complexity of specific fulfillment demands.

Results. To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV of $11.8 million.

Savings From Consolidated Warehouse Contracts

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
B1	Average cost per contract with individual warehouse providers	Interviews	$0	$140,000	$50,000	$50,000
B2	Average IT implementation and onboarding cost per contract	Interviews	$0	$800,000	$100,000	$100,000
B3	Number of hubs used	Composite	0	12	12	12
B4	Cost of contracting with individual warehouse providers	(B1+B2)*B3	$0	$11,280,000	$1,800,000	$1,800,000
B5	Average onboarding cost with Flexe	Interviews	$0	$25,000	$0	$0
Bt	Savings from consolidated warehouse contracts	B4-B5	$0	$11,255,000	$1,800,000	$1,800,000
	Risk adjustment	↓10%				
Btr	Savings from consolidated warehouse contracts (risk-adjusted)		$0	$10,129,500	$1,620,000	$1,620,000
	Three-year total: $13,369,500			**Three-year present value: $11,764,609**		

SAVINGS FROM FEWER OWNED FACILITIES

Evidence and data. Interviewees from larger companies said constructing their own warehouses is an alternate approach to leasing. However, these interviewees noted that in their current environments, new construction would cost too much, take too long, and introduce an unacceptable level of uncertainty.

- At the end of 2022, commercial loan rates were up 10% from 2021.[2] And commercial construction costs increased by double digits in 2021 and 2022.[3] With these significant increases, investing in new construction is much more expensive than it was just a few years ago, both in terms of actual costs and opportunity costs.
- Interviewees said the long lead times and uncertain timelines associated with new construction also made that option less viable. The manager of logistics design and planning for the omnichannel retail company explained that when their organization saw huge sales growth related to the pandemic in late 2020, it was running out of space in its distribution centers, and decision-makers considered adding to the company's owned DC network. He said: "But we would have had to start with a flat piece of land, which would have [taken] two years if we were lucky. We also knew there would be the potential for service disruptions in the supply chain." For a company with 70% of its product volume flowing through its distribution centers, those were unacceptable risks.
- Interviewees said tying up large amounts of capital and holding up strategic initiatives for multiyear construction timelines would have been detrimental to retailers' ability to survive. The senior VP of global supply chain for the D2C retailer described his organization's business model as one of speed and adaptability. He explained: "We gather large data sets, and then we pivot very quickly to come up with a forecast, order products from overseas, and bring them in just in time. So, when someone buys it, it's a very quick one- to two-day delivery. We run the forecast every two weeks versus other companies that may do it once a quarter. So, being able to react quickly is something that's very important for us."

  In this scenario, capital is more strategically invested in products rather than buildings, and interviewees said multiyear construction timelines would introduce staggering lost opportunity costs.

> **"It's a bit painful when you have to cut a check with nine digits in it for a new building. It's [much easier] to swallow signing up for the operational cost on a monthly basis."**
>
> *Manager of logistics design and planning, omnichannel retail*

Modeling and assumptions. For the composite organization, Forrester assumes:

- The composite organization looks to open three new facilities each year in years 1 through 3.
- By avoiding new construction, the organization avoids paying more than $28 million in new-construction costs as well as more than $7 million in borrowing costs, assuming an interest rate of 7%.
- The composite also avoids assuming all of the operating costs of these facilities and it instead pays a portion of these costs through the vendor.

Risks. This benefit can vary from organization to organization as well as within an organization, with

the largest driver of variability being the locations of facilities. For example, some high-demand areas may have significantly higher costs for construction and ongoing operation than those modeled for the composite.

Results. To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV of $19 million.

Savings From Fewer Owned Facilities

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
C1	New facilities opened	Composite	0	3	3	3
C2	Avoided cost of capital, based upon borrowing $28.5M for construction of one facility (compounded for future value)	Composite	$0	$1,995,000	$2,284,076	$2,798,091
C3	Avoided operating cost of owned warehouses	Composite	$0	$500,000	$500,000	$500,000
Ct	Savings from fewer owned facilities	C1*(C2+C3)	$0	$7,485,000	$8,352,227	$9,894,272
	Risk adjustment	↓10%				
Ctr	Savings from fewer owned facilities (risk-adjusted)		$0	$6,736,500	$7,517,004	$8,904,845
	Three-year total: $23,158,349			**Three-year present value: $19,026,833**		

SAVINGS FROM SEASONAL-ONLY COMMITMENTS

Evidence and data. Each interviewee said the flexibility of Flexe is a huge benefit. They said their organizations could pay for what they needed when they needed it rather than being constrained by location-specific warehousing commitments and long-term contracts.

The senior VP of global supply chain for the D2C retail company said: "With the Flexe model, we don't have to go and buy fixed space. [Instead, our costs are] based on per-pallet consumption. Having that flexibility allows us to ramp up or ramp down as needed across all these different geographies as the demand changes and fluctuates."

Modeling and assumptions. For the composite organization, Forrester assumes:

- The composite's cost per square foot is $1.20, and the organization uses multiple distribution and fulfillment centers across the US.
- The composite organization uses this capacity for six to eight months per year (averaged to seven months) to address seasonality in its business.

> **"Flexe lets us adjust the warehouse space, the size, the location, and even whether or not we have [the space] at all."**
>
> *Director of North American purchasing, CPG*

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. For example, some inventory may need to be cooled in summer or kept from freezing during winter.

Results. To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV of $3.4 million.

Savings from Seasonal-Only Commitments

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
D1	Average monthly capacity cost per square foot	Interviews	$0	$1.20	$1.20	$1.20
D2	Average max capacity needed per month	Interviews	0	250,000	250,000	250,000
D3	Average months capacity needed per year	Interviews	0	7	7	7
D4	Capacity cost without Flexe (max capacity year-round)	D1*D2*12	$0	$3,600,000	$3,600,000	$3,600,000
D5	Capacity cost with Flexe (only in months needed)	D1*D2*D3	$0	$2,100,000	$2,100,000	$2,100,000
Dt	Savings from seasonal-only commitments	D4-D5	$0	$1,500,000	$1,500,000	$1,500,000
	Risk adjustment	↓10%				
Dtr	Savings from seasonal-only commitments (risk-adjusted)		$0	$1,350,000	$1,350,000	$1,350,000
	Three-year total: $4,050,000			**Three-year present value: $3,357,250**		

UNQUANTIFIED BENEFITS

Interviewees mentioned additional benefits that their organizations experienced but were not able to quantify. These include:

- **Avoidance of production shutdowns.** Interviewees said having a partner that can respond quickly to emerging needs is sometimes critical to preventing production shutdowns. The director of North American purchasing for market operations at the CPG company said: "[If our 3PL vendor takes longer to respond,] it puts millions of dollars of either inventory or materials at risk. The other thing at risk is business continuity. Being a manufacturing company, shutting down any site or any machine is not at all good for the company, especially [when they're] unplanned shutdowns. So, it's pretty big to not be able to move fast."
- **Allowing for bulk-buy and volume-discount opportunities.** When brands are able to dynamically ramp up storage capacity and easily shift products from one storage facility to another, they can take advantage of bulk-buy and storage-volume discounts offered by wholesale vendors and individual warehouse providers. The senior VP of global supply chain for the D2C retail company explained: "Storage costs are probably 10% to 20% higher than [they were] in 2021. However, a lot of our warehouses held their [2021] rates, mainly because we gave them more volume. With our business model and Flexe, we've been able to adjust our volume to different locations [to keep costs down]."
- **Improving cash flow through accelerated inventory turns.** Interviewees said locating mixing centers close to top-performing stores and using these facilities for near-just-in-time restocking of top-selling items allows stores to turn inventory faster, which reduces the value of held inventory in favor of increased cash flow.
- **Supporting the ability to test and iterate.** Interviewees said Flexe offers the ability to respond quickly and to offer logistics solutions without long-term commitments, which supports a rapid and low-risk "test and iterate" cycle. The director of North American purchasing for market operations at the CPG company said: "When we reach out and say we need something, Flexe moves very quickly. That is a huge enabler for us — not only for securing our inventory, but [also] for making decisions internally."

  The manager of logistics design and planning from an omnichannel retailer said their organization suspected that using additional mixing centers located close to top-performing stores could boost in-stock rates and in-store sales, so it tested the concept by opening one or two of these facilities each year. Then, once the numbers increased, it accelerated that initiative and expanded it to more locations.

> **"Flexe is definitely a long-term partner as different curveballs get thrown within the supply chain. With [everything that's] unforeseen, [Flexe is] a partner that we would lean on in the future."**
>
> *Manager of logistics design and planning, omnichannel retail*

- **Supporting overall resiliency.** Interviewees shared that their views of Flexe have shifted over time. While they initially looked to Flexe to offer overflow storage in response to disruptions, they later started to see Flexe as a long-term partner that could offer them strategic resiliency on an

ongoing basis. The director of North American purchasing for market operations at the CPG company said: “When we initially partnered with Flexe, we were still coming through the [COVID-19] pandemic, and all the supply-chain inflections that [it] brought. Now, we can step back and [ask], ‘How do we want to partner longer term to give us extra resiliency and preparedness in the future?”

FLEXIBILITY

The value of flexibility is unique to each customer. There are some scenarios in which a customer might implement Flexe and later realize additional uses and business opportunities, including the possibility of saving on overall transportation costs.

This is particularly relevant to brands that sell through DTC channels because they may have the opportunity to balance mid-mile trucking costs with last-mile delivery costs and adjust the locations of their fulfillment warehouses in order to optimize current pricing trends.

The senior VP of global supply chain for the D2C retail company explained: “[Transportation cost savings are] a double-edged sword. We pay more to distribute it more [to our warehouses] with over-the-road trucking. But what it saves us on is the final-mile shipping costs. We have models built that look at that: ‘Does it make sense to move the truck of goods from point A to point B or [to] just let it sell through from this current warehouse but pay more for shipping costs?’ We figure out where the sweet spots are and try to stay there as long as possible. Long story short, what we’ve been able to do is adapt.”

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**
Etr	Integration and training	$29,718	$1,109	$1,109	$0	$31,935	$31,642
Ftr	Flexe services cost	$0	$30,030,000	$31,531,500	$33,108,075	$94,669,575	$78,233,678
	Total costs (risk-adjusted)	$29,718	$30,031,109	$31,532,609	$33,108,075	$94,701,510	$78,265,320

INTEGRATION AND TRAINING

Evidence and data. The interviewees said their organizations incurred a labor cost of $25,000 to integrate with the Flexe Logistics Platform and that they also required training for internal employees.

Modeling and assumptions. For the composite organization, Forrester assumes:

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

Risks. These costs will vary based on differing salary ranges and attrition rates in different geographies.

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 $31,600.

Integration And Training						
Ref.	**Metric**	**Source**	**Initial**	**Year 1**	**Year 2**	**Year 3**
E1	Integration with existing technology	Interviews	$25,000	0	0	0
E2	Number of employees trained (50% attrition annually)	Composite	14	7	7	0
E3	Number of training hours	Interviews	6	6	6	0
E4	Average hourly burdened rate of an employee who requires training	TEI standard	$24	$24	$24	$0
Et	Integration and training	E1+E3*E2	$27,016	$1,008	$1,008	$0
	Risk adjustment	↑10%				
Etr	Integration and training (risk-adjusted)		$29,718	$1,109	$1,109	$0
	Three-year total: $31,935			**Three-year present value: $31,642**		

FLEXE SERVICES COST

Evidence and data. The interviewees said their organizations incurred several costs associated with their Flexe investments, including:

- Inbound handling costs based on unloading inventory from trucks, receiving it into a 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, conducting breakdown, selecting for individual orders, packaging, labeling, and any other tasks 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. For the composite organization, Forrester assumes:

- The composite organization's total storage space with Flexe ranges from 600,000 square feet to 1 million square feet during the year, depending on the season.
- The organization incurs inventory handling and storage costs year-round, whereas fulfillment and capacity costs vary based on season.
- Costs for each of these service lines increase 5% annually due to inflation and rising labor costs.

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

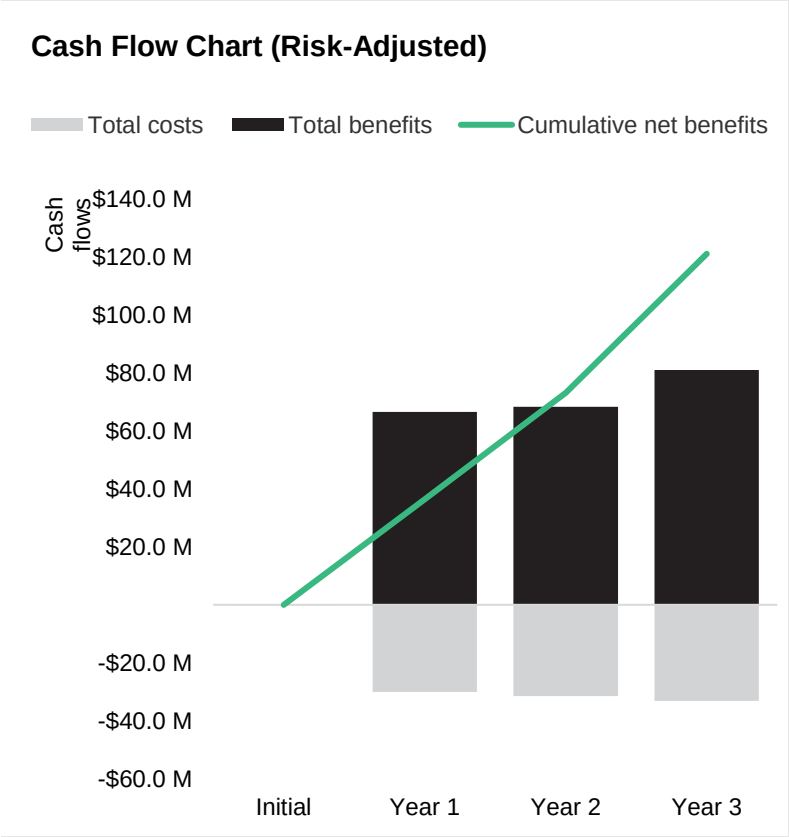
Results. To account for these risks, Forrester adjusted this cost upward by 5%, yielding a three-year, risk-adjusted total PV of $78.2 million.

Flexe Services Cost

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
F1	Inbound handling cost (5% annual growth)	Composite	$0	$6,300,000	$6,615,000	$6,945,750
F2	Bulk inventory storage (5% annual growth)	Composite	$0	$11,000,000	$11,550,000	$12,127,500
F3	Flexe fulfillment outbound (5% annual growth)	Composite	$0	$3,400,000	$3,570,000	$3,748,500
F4	Flexe distribution and capacity outbound (5% annual growth)	Composite	$0	$5,400,000	$5,670,000	$5,953,500
F5	Adjustments for labor, supplies, etc. (5% annual growth)	Composite	$0	$2,500,000	$2,625,000	$2,756,250
Ft	Flexe services cost	F1+F2+F3+F4+F5	$0	$28,600,000	$30,030,000	$31,531,500
	Risk adjustment	↑5%				
Ftr	Flexe services cost (risk-adjusted)		$0	$30,030,000	$31,531,500	$33,108,075
	Three-year total: $94,669,575			**Three-year present value: $78,233,678**		

Financial Summary

CONSOLIDATED THREE-YEAR RISK-ADJUSTED METRICS



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

These risk-adjusted ROI and NPV 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	($29,718)	($30,031,109)	($31,532,609)	($33,108,075)	($94,701,510)	($78,265,320)
Total benefits	$0	$65,668,500	$67,430,004	$80,206,445	$213,304,949	$175,686,201
Net benefits	($29,718)	$35,637,391	$35,897,395	$47,098,370	$118,603,439	$97,420,881
ROI						124%

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%.

Appendix C: 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.

[2] Source: "Assets and Liabilities of Commercial Banks in the United States – H.8," Board of Governors of the Federal Reserve System, April 19, 2023.

[3] Source: "U.S. Real Estate Market Outlook 2023," CBRE, December 2, 2022.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