A Forrester Total Economic Impact™
Study Commissioned By CommerceHub
May 2020

The Total Economic Impact™ Of CommerceHub

Cost Savings And Business Benefits Enabled By CommerceHub

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ABOUT FORRESTER CONSULTING

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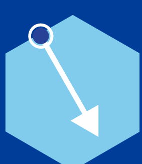
Key Highlights

"CommerceHub is a great partner. They are aligned with us in understanding our goals, and they're very engaged in all levels of strategy from supplier management to technical support teams."
VP of product management, multibrand retailer

Three-year drop-ship sales (pre-operating margin and risk adjustment):
$235 million



Three-year costs:
$5.2 million

Executive Summary

Retailers are increasingly feeling pressure to expand their online product offerings in a competitive eCommerce marketplace. Drop shipping, the shipment of goods from a manufacturer or wholesaler directly to a customer on behalf of the retailer that took the order, is an approach retailers often take to scale their digital storefront offerings.

Retailers can significantly expand and diversify their digital supply chains with product listings from a variety of suppliers to help drive business growth. They can also rely on drop shipping as a proven way to extend digital business, in the face of unexpected disruption of physical store traffic, by quickly adding products for shoppers to safely and easily purchase from home.

However, managing this program in-house without external support can be challenging because of the expensive overhead costs to launch a drop-ship program and the lack of a fulfillment management system to track suppliers and orders. Inconsistent supplier performance can also cause undue harm to a retailer's brand.

CommerceHub addresses drop-shipping challenges by providing its OrderStream® platform for retailers to manage their supplier networks and streamline the integration of supplier products to their sites. CommerceHub assists in tracking the status of orders and providing visibility over supplier performance to help retailers determine whether or not suppliers' service level agreements (SLAs) are being met. All of this is typically accomplished without retailers having to significantly increase staffing for management or build overhead to scale operations.

CommerceHub commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) that large retailers may realize by deploying CommerceHub. The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of the CommerceHub platform on their organizations.

To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed four customers with years of experience using CommerceHub.

Prior to using CommerceHub, the retailers had little control over exception management for order fulfillment as many suppliers failed to update if items were out of stock and they inaccurately estimated delivery dates. Meanwhile, integration of suppliers to the retailers' drop-ship programs took months of time and still resulted in performance issues.

The retailers considered adding CommerceHub competitors, but they did not feel confident about those companies' approaches to integrating file exchange information, which can lead to back-end errors. CommerceHub provided retailers with assurance that their drop-ship programs would run smoothly based on its proven track record of success.

Since adopting CommerceHub, the retailers have been able to quickly scale their digital supply chains. CommerceHub manages the integration and onboarding of suppliers to their drop-ship programs, and it qualifies and directs the strategic increases in the number of products a retailer can add to its offerings. CommerceHub also provides the technology to help establish a streamlined relationship with suppliers, driving improvement in operational efficiency, a better customer experience, and eCommerce sales growth.

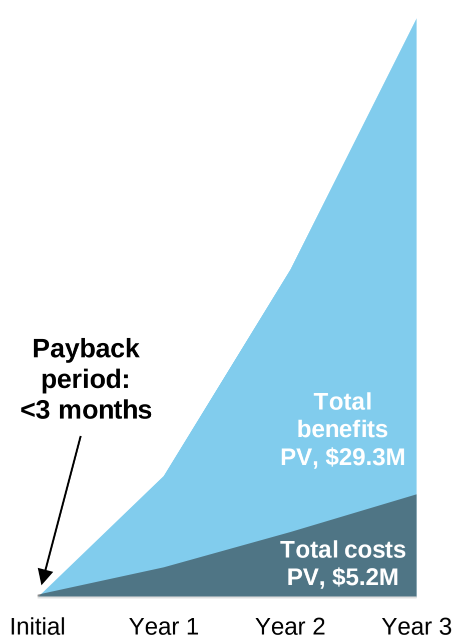
ROI
461%

Benefits PV
$29.3 million

NPV
$24.1 million

Payback
<3 months

Financial Summary



Key Findings

Quantified benefit. The following benefits are representative of those experienced by the companies interviewed and contribute to one risk-adjusted present value (PV) quantified benefit table in this study:

- **Sixty-six percent reduction of time spent onboarding suppliers.** With CommerceHub as an intermediary connecting retailers and suppliers, retailers eliminated time dedicated toward vetting suppliers and integrating supplier file exchange information (e.g., electronic data interchange (EDI), direct enterprise resource planning (ERP) integration, XML, etc.) with their network. Typically, CommerceHub enables retailers to launch a supplier in less than an hour. Previously, the end-to-end process of connecting file exchange information and selecting products to list from suppliers took the retailers three to six months to complete. With CommerceHub, it takes under two months. As a result, retailers are capable of adding hundreds of suppliers to their drop-ship program each year.
- **Hundreds of thousands of products added per year.** Retailers are adding upwards of thousands of products from each supplier that it onboards. CommerceHub's ProductStream® feature fuels this product influx by enabling suppliers to create product profiles for retailers to quickly insert onto their sites and appear natively alongside other products.
- **Less than 1% of drop-ship product orders unfulfilled.** Retailers experienced fewer instances of failure to deliver on products since using CommerceHub to oversee supplier performance and to weed out suppliers that fail to keep product listings up to date or deliver products. Improved customer service and product selection led to increased site traffic and purchases.

Unquantified benefits. The interviewed organizations experienced the following benefits, which are not quantified for this study:

- **Avoided build costs for drop-ship programs.** Investment in a drop-ship program without a partner like CommerceHub can require *millions of dollars* from retailers. By adopting CommerceHub, retailers avoided these costs by not having to build a supplier management platform or increase staffing, all while increasing their range of products.
- **Support from CommerceHub toward adding suppliers.** When retailers sought additional suppliers and products for their sites, CommerceHub suggested suppliers to add. Since it's connected to thousands of suppliers, CommerceHub can alert retailers to new opportunities where it's seen success.
- **Bolster presence of retailers' digital storefronts.** Prior to temporary store closures due to the threat of COVID-19, many large retailers heavily relied on physical retail to drive business. But with consumers increasingly purchasing items online to avoid leaving their homes, retailers adding or expanding their drop-ship programs helped them to continue to meet consumer needs.

Costs. The interviewed organizations experienced the following risk-adjusted PV costs:

- **Employee and training costs.** The retailers created small teams to manage their CommerceHub platforms and drop-ship programs, and each employee attended one day of training.

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- **Ongoing platform costs.** CommerceHub charges an initial implementation fee to retailers and an ongoing monthly licensing fee. There is also a small fee charged for each order that decreases as the order volume increases.

Forrester's interviews with four existing customers and subsequent financial analysis found that a composite organization based on these interviewed organizations would experience benefits of $29,303,326 over three years versus costs of $5,221,592, adding up to a net present value (NPV) of $24,081,734 and an ROI of 461%.

TEI Framework And Methodology

From the information provided in the interviews, Forrester has constructed a Total Economic Impact™ (TEI) framework for organizations that may consider implementing CommerceHub.

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 CommerceHub can have on an organization:

The TEI methodology helps companies demonstrate, justify, and realize the tangible value of digital solutions to both senior management and other key business stakeholders.

DUE DILIGENCE
Interviewed CommerceHub stakeholders and Forrester analysts to gather data relative to CommerceHub.

CUSTOMER INTERVIEWS
Interviewed four organizations using CommerceHub to obtain data with respect to costs, benefits, and risks.

COMPOSITE ORGANIZATION
Designed a composite organization based on characteristics of the interviewed 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 interviewed organizations.

CASE STUDY
Employed four fundamental elements of TEI in modeling CommerceHub's impact: benefits, costs, flexibility, and risks. Given the increasing sophistication that enterprises have regarding ROI analyses related to IT investments, Forrester's TEI methodology serves to provide 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 CommerceHub 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 report to determine the appropriateness of an investment in CommerceHub.

CommerceHub 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.

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

The CommerceHub Customer Journey

BEFORE AND AFTER THE COMMERCEHUB INVESTMENT

Interviewed Organizations

For this study, Forrester conducted four interviews with CommerceHub customers. Interviewed customers include the following:

RETAILER TYPE	INTERVIEWEE	YEARS WITH COMMERCEHUB
Department store	VP of eCommerce and merchandising	5+
Wholesale	SVP of global eCommerce	10+
Houseware	VP of online merchandising	2+
Multibrand store	VP of product management	1+

Key Challenges And Results

The interviewed retailers needed a platform that provided the tools to address the following challenges they faced prior to adopting CommerceHub.

- **Challenge: Cost of scaling a drop-ship program.** For two of the interviewees, it wasn't feasible to launch a large-scale, in-house drop-ship program to expand their digital supply chains. Costs for building out a network to manage individual EDI and file exchange connections to suppliers and teams to manage those operations would have been too high to justify investment. The other two interviewees had started to build in-house vendor management platforms and quickly realized that supporting point-to-point IT connections for thousands of suppliers would become unwieldly, especially with supplier system changes that introduce problems that the retailer would be forced to handle.
- **Result: Cost avoidance of developing an in-house, large-scale drop-ship program.** CommerceHub's OrderStream platform helped retailers avoid spending months of employee time creating a network to manage their supplier network and then troubleshooting to ensure the platform ran smoothly.
- **Challenge: Lengthy onboarding times for suppliers.** Retailers described several steps that were involved when onboarding suppliers, and that included integrating suppliers' file exchange information, reviewing the actual physical packaging of items, and creating and loading supplier catalogs. This process could take upwards of three to six months at a time, slowing further growth of onboarded suppliers.
- **Result: Streamlined onboarding of suppliers.** Retailers were able to significantly reduce time in the end-to-end process of onboarding suppliers. CommerceHub expedited integrating suppliers in under an hour, and it collected product details and images into its ProductStream feature. The process took less than two months and helped retailers to add many more suppliers on an annual basis.

"The drop-ship side of business had a significant amount of sales occurring, but there weren't any SLAs or management of in-stock ratios. There was very little structure put in place."

VP of online merchandising, houseware retailer

"We used to have to work out delivery date information with each individual supplier. CommerceHub works that out for us and maintains it. It does a lot of heavy lifting on the back end for us."

SVP of global eCommerce, wholesale retailer

- **Challenge: Inconsistent supplier performance.** Following the integration of suppliers, retailers regularly experienced difficulties with them meeting SLAs. Suppliers often didn't update items as out of stock, they didn't always provide estimated delivery times, and sometimes they didn't deliver items altogether.
- **Result: Greater visibility over supplier performance.** With CommerceHub, retailers were connected to suppliers that more reliably updated the availability of product listings and provided more accurate estimated delivery times. There were rarely any cases in which the retailers were caught off-guard by a supplier not fulfilling orders.
- **Challenge: Poor customer experience on sites.** Ongoing poor performance from integrated suppliers resulted in negative customer reviews and flagging customer retention.
- **Result: Consistent customer experiences.** Improved product selection and order fulfillment rates resulted in fewer reports of negative customer experiences. In addition, retailers became more flexible with the items added to meet customer interests. Retailers saw upticks in customer retention and average order value as their sites became more trusted by customers.

"In some cases, you're attracting new customers because of new product offerings. But we're also deepening our relationship with core customers, improving loyalty and retention of them. We're now covering sizes, colors, and styles that meet all our customers' needs."

VP of product management, multibrand retailer

Composite Organization

Based on the interviews, Forrester constructed a TEI framework, a composite organization, and an associated ROI analysis that illustrates the areas financially affected. The composite organization is representative of the four retailers that Forrester interviewed and is used to present the aggregate financial analysis in the next section.

The composite organization that Forrester synthesized from the customer interviews has the following characteristics:

Composite description. The composite organization is a North American multicategory/large-format retail store with annual sales totaling $20 billion, of which $4 billion comes from eCommerce. Drop shipping currently accounts for less than 1% of eCommerce sales, and the organization would like to increase that share to more than 5%. The retailer has 100,000 employees, of which six FTE drop-ship managers will use and rely on CommerceHub to manage the drop-ship program.

Deployment characteristics. The retailer plans to add 750 suppliers and 125,000 products for its drop-ship program in Year 1. The organization added some suppliers in Year 1 that it already had EDI integrations with, but it now manages them with CommerceHub. By Year 2, with some proven success with CommerceHub, the retailer doubles its net number of suppliers to 1,500 and increases its product count from the suppliers, reaching a total of 343,750 products available. By Year 3, the retailer will have fully expanded the offerings of its site to provide 575,000 products from 2,000 suppliers.

Key assumptions

Year 1:

750 suppliers

125,000 products

Year 3:

2,000 suppliers

575,000 products

Analysis Of Benefits

QUANTIFIED BENEFIT DATA AS APPLIED TO THE COMPOSITE

In the following analysis, Forrester used data from the four customer interviews to model the three-year financial impact of launching a drop-ship program through CommerceHub for the composite organization.

The calculations incorporate risk adjustment, and the table shows the present value (PV) of the benefits at a 20% annual discount rate. Readers can find the full benefit calculations and assumptions at the bottom of this section.

Total Benefit

REF.	BENEFIT	YEAR 1	YEAR 2	YEAR 3	TOTAL	PRESENT VALUE
Atr	Operating profit from drop-ship program	$6,750,000	$12,656,250	$16,913,352	$36,319,602	$29,303,326
	Total benefits (risk-adjusted)	$6,750,000	$12,656,250	$16,913,352	$36,319,602	$29,303,326

For each of the factors that contribute to the overall benefit, please review the following sections.

Fast Supplier Integration Drives Drop-ship Operations Growth

Beyond potential physical overhead, the most significant initial challenge for retailers when launching a drop-ship program involves onboarding suppliers. After agreeing to carry a supplier's inventory, drop-ship managers must work on setting up supplier IDs, EDI integrations, and creating catalogs for inventory. This process could take up to six months due to continuous back and forth with the supplier, while ensuring that the products are presented seamlessly with the rest of the retail site.

Supplier integrations become more problematic as retailers try to scale their drop-ship programs. Each integration takes a significant amount of time and effectively caps the number of suppliers that can be added each year. In addition, there is ongoing maintenance to handle changes that supplier systems can introduce. The VP of product management at a multibrand store said:

"Over the span of seven years, we had roughly 700 suppliers because each one had an individual EDI integration. It was very labor-intensive because all of the testing steps had manual validations."

In several cases, retailers abandoned onboarding suppliers because it was too difficult to integrate their EDI.

CommerceHub's OrderStream platform streamlines this process. It provides suppliers with a variety of connection options to best fit their technical capabilities and enables nearly any supplier to be compatible with a retailer, regardless of its file exchange interface. CommerceHub's onboarding team works with the supplier to handle setup and testing to certify readiness to start processing orders for the retailer.

Essentially, CommerceHub lifts the onboarding supplier burden off of retailers. This process leads to reduced time to launch supplier product offerings and an increased number of suppliers that can meet retailer

Supplier Integration Timeline
Before: 6 Months
After: <2 Months

requirements, while eliminating bottlenecks or capacity constraints that retailers faced when they relied on internal teams to onboard suppliers and test EDI integrations.

In their experience with integrating suppliers, the SVP of global eCommerce at a wholesale retailer said:

"If we didn't have CommerceHub, we'd have to do integrations for each of our 1,100 suppliers. If that was the case, we probably wouldn't have the staff to do it. It wouldn't be possible."

Interviewees said it took roughly two months or less to add new suppliers through CommerceHub—66% less time than previously—enabling them to add hundreds of suppliers in the first year. The relative ease of the process encouraged retailers to scale their supplier network by hundreds in the following years.

Secure Operations And Reliable Suppliers Maintain Customer Satisfaction

Beyond adding suppliers, retailers regularly faced time-consuming issues with managing supplier performance. Multiple interviewees cited file corruptions that would delay or prevent file transmissions between EDI systems altogether. This issue led to orders not being sent, products not being delivered on time, and a lack of up-to-date information about product status for customers.

These issues were time-consuming for retailers partially because each supplier had a direct integration with retailers' sites. As a result, retailer technicians had to identify the unique technical problems for each EDI integration producing the error.

Interviewed retailers' concerns over these technical errors and the impact they were having on consumers contributed to a push to adopt CommerceHub. Unique integration and technical difficulties were no longer a problem when retailers implemented CommerceHub to manage access to suppliers. If there are any errors with the supplier (e.g., invalid transactions or business rule violations), CommerceHub automatically notifies the supplier. Retailers are copied on the notifications, but they do not have to take any action as the suppliers make the fix on their end.

This switch made the most significant impact on customer experience and order fulfillment. Previously, upwards of 10% of drop-ship orders each year were impacted by being incorrectly listed as in-stock, failure to deliver, or delays. With CommerceHub, these issues rarely occur, if at all.

Since working with CommerceHub, the retailers have used the platform to directly notify suppliers when errors occur. When they had a direct integration, it meant someone had to go in and identify the unique problem. But the setup with CommerceHub streamlines that process.

"Our fallout or cancel rate is less than 1%, so, it's really, really good. Everything that we show online is always available for sale and if it's not available for sale, you won't see it available online."

VP of eCommerce and merchandising, department store retailer

Unfulfilled drop-ship orders

Before: 10% of orders

After: <1% of orders

Revenue From Drop-ship Program At Scale

Fast supplier integration and secure operations resulted in quick results for the interviewed retailers. Those that had a smaller scale drop-ship program with dozens of integrated suppliers said drop-ship sales increased by double digits in Year 1. Within two years, drop-ship sales accounted for a minimum of 5% of eCommerce sales. Interviewees noted that scaling of the drop-ship program cascaded into additional site traffic, new customers, and upticks in average order values and number

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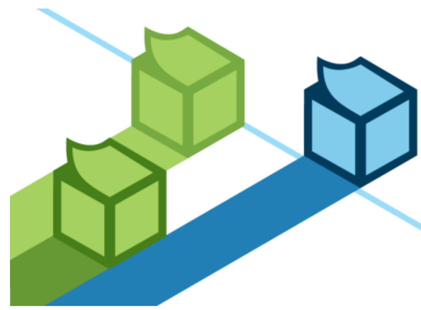
of purchases made. The interviewees also said that the addition of product categories that were closely related to longstanding product lines drove a significant portion of additional business. According to the VP of online merchandising at a houseware retailer:

"It's all net new sales. We were ignoring categories like lighting, which is a very décor-forward category that [has] a stylistic change that happens on an annual basis. We were losing shares in certain categories just because we weren't keeping up with trends on specific products that people were looking for. [With] categories like that, it's a huge lever."

The addition of products is streamlined with CommerceHub's ProductStream platform, which enables suppliers to enter their information into the platform and not onto the retailer sites themselves. Through CommerceHub's ProductStream interface, retailers then review products they would like to add from the suppliers and then curate them for their site. Because retailers collect production information and images to add to their sites to feature products, this process reduces time spent.

The table for this TEI analysis is representative of the collective effect of these benefits for large retailers adopting CommerceHub. To best understand the table, readers should review Forrester's assumptions for its impact on the composite organization:

- In Year 1, the multibrand store has 750 suppliers as part of its drop-ship program. It takes an average of two months to integrate the suppliers from initial engagement to selecting items to sell on its site. Of those 750, less than 100 are suppliers from previous drop-ship efforts, and the organization now manages them through the CommerceHub platform. On average, the store offers 200 products from each supplier.
- In Year 2, the number of suppliers doubles to 1,500. Likewise, the average number of products from suppliers increases to 250 as the retailer looks to increase and diversify its digital offerings. By Year 3, the rate of supplier growth starts to decelerate as it reaches 2,000 total suppliers, and the number of products per supplier increases to 300. The number of suppliers is representative of the total amount the retailer is working with in the year, even when considering supplier churn.
- The number of unique visits to supplier product pages on the retailer website in Year 1 represents less than 10% of the traffic to the retailer website. The number of visits increases at half the rate of the number of products being added because, while the products do generate additional traffic, it's not a one-to-one ratio. Rather, the additional products can result in more consumer purchases.
- The average conversion rate for supplier products is 2.5%.
- The average order value is $75 throughout the three-year period. This cost is in line with what interviewees shared, the variety of products sold by a multibrand retailer, the size of the company, and its scale of operations.
- An operating margin of 9% is applied to these sales to account for any indirect costs.[1]
- By Year 3, the $235 million of drop-ship sales for the multibrand retailer accounts for 5.3% of eCommerce sales and 1.1% of total sales.



Drop-ship share of composite org sales
eCommerce: 5.3%
Total sales: 1.1%

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The following risks can affect the estimate:

- The estimated revenue will vary based on retailer type, number of customers, site traffic, product prices, and the number of suppliers that will be added.
- The average conversion rate will vary over the three years following the influx of additional products. Rather than make assumptions on how widely it can vary, it remains static in the three-year model.

To account for these risks, Forrester adjusted this benefit downward by 20%, yielding a three-year risk-adjusted total PV of $29,303,326.

Impact risk is the risk that the business or technology needs of the organization may not be met by the investment, resulting in lower overall total benefits. The greater the uncertainty, the wider the potential range of outcomes for benefit estimates.

Operating Profit From Drop-ship Business: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
A1	Net new suppliers added through CommerceHub for drop-ship program	Interviews	750	750	500
A2	Total number of suppliers for drop-ship program	A1+previous year	750	1,500	2,000
A3	Months spent onboarding new suppliers with CommerceHub	Interviews	2	2	2
A4	Average number of products added per supplier	Interviews	200	250	300
A5	Total number of products added	A1*(10/12 months)*A4 + $A2_{PY}$*A4	125,000	343,750	575,000
A6	Annual unique visits to supplier product pages	Increases at half of the rate of products added	50,000,000	93,750,000	125,284,091
A7	Average conversion rate for supplier products	Assumption	2.5%	2.5%	2.5%
A8	Total number of supplier product purchases	A6*A7	1,250,000	2,343,750	3,132,102
A9	Average order value	Interviews	$75	$75	$75
A10	Annual drop-ship sales after CommerceHub	A8*A9	$93,750,000	$175,781,250	$234,907,670
A11	Operating margin	Assumption	9%	9%	9%
At	Operating profit from drop-ship program	A10*A11	$8,437,500	$15,820,313	$21,141,690
	Risk adjustment	↓15%			
Atr	Operating profit from drop-ship program (risk-adjusted)		$6,750,000	$12,656,250	$16,913,352

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Unquantified Benefits

In addition to the quantified benefits above, the interviewees experienced additional benefits that Forrester could not quantify, but that are just as impactful to the experience with CommerceHub. These include:

- **Avoided developmental costs.** Before CommerceHub, interviewees faced the question of build vs. buy for their drop-ship programs. Interviewees said that without CommerceHub, a larger-scale drop-ship program requires significant investment from their organizations for developing networks to integrate and manage suppliers. The level of investment potentially would not justify the return.

  While interviewees considered alternative solutions to CommerceHub, those solutions did not present the level of support they needed on the back end to ensure smooth supplier integrations and to produce few technical errors.

  Beyond back-end support, CommerceHub offered retailers assistance on several proactive fronts like communicating changes in their programs to suppliers, providing reminders to suppliers to load their inventories, and issuing educational and FAQ materials to assist in supplier recruitment.

  CommerceHub represented relatively low stakes in terms of investment and opportunity to quickly and securely scale supplier network. Aside from annual service fees, retailers avoided spending countless millions toward building the infrastructure to run a drop-ship program while yielding similar results.

- **Assistance in identifying new suppliers.** Each of the interviewees spoke about how helpful CommerceHub has been in providing support for their drop-ship programs, especially in regard to identifying new business opportunities with other suppliers. When building an in-house drop-ship program, teams at retailers have to do the legwork to identify potential suppliers to provide products. Since CommerceHub works with thousands of suppliers to provide products for retailers, it has insight into companies that could offer products matching retailers' product categories, and it can arrange introductions.

- **Strengthen digital storefront positioning for retailers.** Physical stores have been the focus of many retailers for years, but the COVID-19 pandemic led many retailers to temporarily close locations. While the interviewees had yet to face this challenge at the time of the interviews, they said CommerceHub enables them to meet customer demand when items are unavailable in stores, and it provides them with a greater selection of products to bolster their digital storefronts.

Retailers saved **millions** in operational costs by adopting CommerceHub.

> "We're either recruiting net new suppliers and directing them to CommerceHub, or CommerceHub is recruiting new suppliers and proposing them to us for consideration. We depleted our initial list of suppliers, and that's the long-term stage we're focusing on now."
>
> *VP of product management, multibrand store*

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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
	Total costs (risk-adjusted)	$158,467	$1,486,500	$2,193,404	$2,527,610	$6,365,981	$5,221,592

The table above shows the total of all costs across the areas listed below, as well as the discounted present values (PVs). Over three years, the composite organization expects risk-adjusted total costs to be a PV of more than $5.2 million. Below are the two factors contributing to the overall costs.

Employee And Training Costs

Adoption of CommerceHub for the interviewed retailers led to the expansion of their drop-ship management team. Altogether, a small number of full-time employees were dedicated to management of the platform and suppliers, while other employees allocated a portion of their time to support the team.

For the composite organization, there are three managers dedicated to managing the external fulfillment network via the CommerceHub platform, monitoring supplier performance, and tracking orders. This number increases as operations scale and the organization needs more help.

Interviewees shared that they had several team members engaged with the CommerceHub platform to manage fulfillment and review supplier performance, but it only took up a portion of their time.

Three FTEs are tasked with managing the CommerceHub platform and tracking orders.

Ongoing Platform Costs

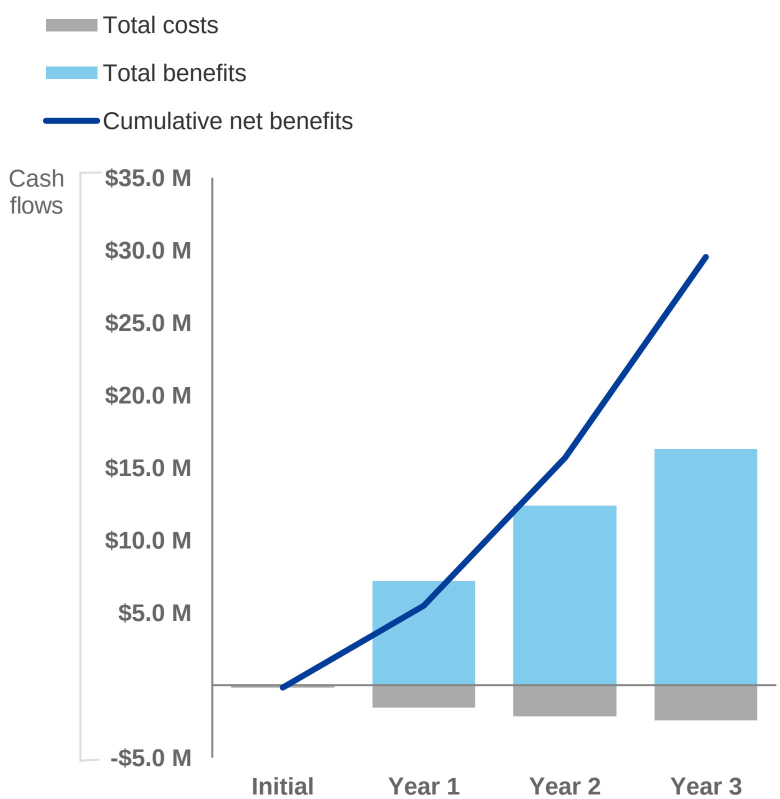
CommerceHub has an initial implementation fee that includes integrating the platform with a retailer’s network and training services. Following implementation, customers are charged a monthly licensing cost.

For each order made, CommerceHub charges a small fee to the retailer. Some of the interviewed retailers said they add the additional fee to the total costs of items, so the item essentially pays for itself. Other interviewed seeking to provide more competitive pricing pay the fee.

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 Table (Risk-Adjusted)

	INITIAL	YEAR 1	YEAR 2	YEAR 3	TOTAL	PRESENT VALUE
Total costs	($158,467)	($1,486,500)	($2,193,404)	($2,527,610)	($6,365,981)	($5,221,592)
Total benefits	$0	$6,750,000	$12,656,250	$16,913,352	$36,319,602	$29,303,326
Net benefits	($158,467)	$5,263,500	$10,462,846	$14,385,743	$29,953,621	$24,081,734
ROI						461%
Payback period						<3

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CommerceHub: Overview

The following information is provided by CommerceHub. Forrester has not validated any claims and does not endorse CommerceHub or its offerings:

As retailers adjust to a quickly evolving and dynamic world situation, the eCommerce sector is seeing an acceleration of activity. Retailers know they need to be digital-proof and that having a presence that spans across multiple touchpoints in order to meet customer expectations and deliver a great customer experience is key. Increasing strain has been put on supply chains to meet these expectations, and this pressure is now mounting like it never has before. Retailers that have diversified, and resilient digital supply chains will be able to keep pace.

Mitigate Supply Chain Disruption

Retailers have long known that drop-ship networks give you unparalleled agility. But throughout the COVID-19 pandemic, we're seeing the benefit of diversification as well. It is clear that by diversifying the supply chain and adapting it to be more demand-driven and responsive, retailers can lower the risk that disruptions will cause a negative impact to sales and customer experiences while still reducing the time it takes for consumers to receive orders.

Implementing a digital supply chain reduces the risk of concentrating distribution and fulfillment in a single geographic region. This allows retailers to optimize deliveries and adjust their supply chain in the event of unforeseen disruptions.

Drop shipping plays a key role in any retailer's eCommerce strategy because it's a proven way to safeguard your business and meet the evolving and future demands of consumers. With drop-ship capabilities from CommerceHub, retailers can:

- Increase revenue without inventory risk.
- Gain access to geo-diverse suppliers.
- Expand assortment strategically.
- Grow demand with new audiences.
- Improve delivery and enhance customer experience.

Retailers that can rely on their digital supply chain and drop-ship model can take the products they have and work with their suppliers to diversify and distribute their inventory. This helps ensure products that customers need can be delivered to them in a safe way that meets their expectations.

CommerceHub gives retailers the simple, scalable, tested, and reliable drop-ship platform they need to enable true diversification of their supply chain along with a level of efficiency and control that enhances their brand experience with expanded product assortment, a better customer experience, and increased profitability.

To learn more, visit www.commercehub.com.

Key CommerceHub Facts

- **12,000+ integrated suppliers**, **brands, and distributors** across our drop-ship network
- Enable **$20 billion GMV annually**
- **Millions of SKUs** managed
- **Localized support, customized services, and dedicated account management**

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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 digital solution 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] Source: Aswath Damodaran, "Margins by Sector (US)", Stern School of Business at New York University, January 2020.

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