FORRESTER®

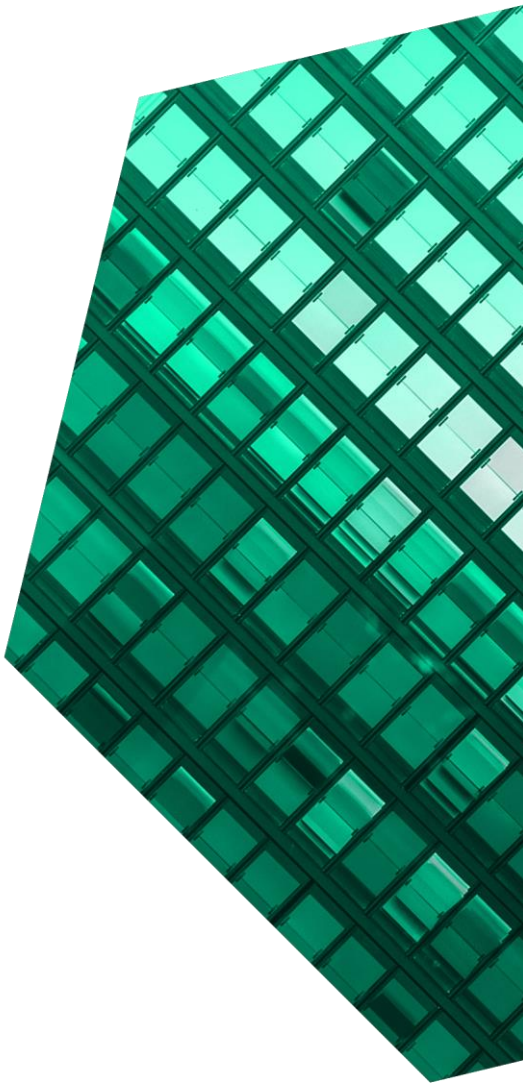
The Total Economic Impact™ Of eShopWorld (ESW)

Cost Savings And Business Benefits Enabled By ESW

FEBRUARY 2021

Table Of Contents

Consulting Team: Sean Owens
Jasper Narvil



ABOUT FORRESTER CONSULTING

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

Executive Summary

With a multifaceted effort required to support cross-border shopping, transactions, shipping returns, and support (plus tariff and tax laws that can vary by country), many retailers struggle to expand their digital reach beyond their home borders. ESW's technology and services solution is built to help retailers sell their goods in new markets by: integrating into brands' existing domestic e-commerce setup; managing shopping, checkout, and logistics; optimizing operational costs; and understanding local market preferences.

ESW commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) enterprises may realize by deploying ESW. The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of the ESW cross-border e-commerce solution on their organizations. ESW aims to reduce friction of the cross-border shopping experience by managing shopping, checkout, shipments and returns, providing local payment options, and overseeing the tariffs and taxes associated with cross-border shipping. This helps retailers unlock new sales opportunities leading to increased revenue and margin.

To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed four ESW customers. For the purposes of this study, Forrester aggregated the experiences of the interviewed customers and combined the results into a single composite merchant. This composite merchant is a billion-euro retailer that has a brand and department store presence in multiple countries. It is looking for help in managing its international markets, which add up to about $65 million in total international e-commerce revenue.

Prior to using ESW, interviewed retailers did not have a true cross-border e-commerce solution that was designed to fit their needs. They were often unable to ship goods internationally without either drastic delays in delivery times, high tariffs and taxes, or added fees to customers upon delivery.

KEY STATISTICS

Return on investment (ROI)
166%

Net present value (NPV)
$46.8M

After an investment in ESW, the customers now have an e-commerce experience with storefronts localized with options such as customized pricing, language, and promotions; duty and tax calculation; and preferred payment options. Added inventory and shipping optimizations help ensure goods are delivered directly in a timely manner. Key results from the investment include: increased revenue from increased cross-border e-commerce; operational cost savings where ESW takes over several tasks; and avoided implementation costs, as compared to retailers that build their own cross-border e-commerce strategy.

ESW benefits:

- ✓ **New revenue**
- ✓ **Reduced operating costs**

KEY FINDINGS

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

- **Increased revenue and margin enabled by new cross-border e-commerce.** ESW enables significant e-commerce growth. Before deploying the ESW platform, the composite organization's entry into new foreign markets was complicated by costly tariffs, international shipping rates, and regulatory requirements. With the adoption of ESW's platform, it quickly saw $65 million in total revenue in Year 1, of which $46 million was net-new business, growing to $157 million in total revenue, of which $123 million was net-new business, in Year 3. Over the three-year analysis, the increased revenue, which was driven by new cross-border e-commerce across 90 activated countries, added up to a risk-adjusted PV of $61.3M in new operating margin.
- **Avoided costs of 5% of cross-border revenue processed through ESW.** ESW manages many of the complexities associated with cross-border e-commerce, such as: pricing, checkout, payments, shipping, returns, support, tariffs, and others. The digital sales manager at a sportswear retailer explained, "One of the reasons why we started to work with them was their ability to negotiate better pricing for shipping, customs, and other costs because of their overall volume." By avoiding these tasks themselves, the time savings for the composite organization's employee operations (for the cross-border business they would have managed without ESW) added up to a risk-adjusted PV of more than $3.1 million.
- **Avoided e-commerce implementation costs of nearly $10.5 million over three years.** Without ESW, the composite merchant would have had to build out international e-commerce sites on their own. This path would have required the composite merchant to prioritize its list of countries, as only 25 of them could be developed without further investment being needed. Without ESW, the composite merchant would have required a team of four FTEs working for 50 weeks to activate each new market. This would have resulted in significant implementation costs, as well as some resource time for ongoing site maintenance and marketing efforts. Additionally, it would have also led to the activation of only about one-quarter as many countries they were able to activate with ESW.

> **"ESW has a foothold around the world to tell us what's happening and help guide our decision-making."**
>
> *Global digital director, fashion retailer*

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

- **Maintaining brand value.** With ESW, interviewed retailers saw cross-border sales improving shipping, return, and support. Before, excessive package delays or surprise tariff costs could damage customer relationships to the point of losing future sales.
- **ESW expertise and guidance.** The global digital director for a fashion retailer highlighted how ESW's knowledge helps maintain business continuity: "We're talking about things like snowstorms and border closings in daily meetings. ESW has a foothold around the world to tell us what's happening and help guide our decision-making."

Costs. Risk-adjusted PV costs include:

- **ESW service fees.** Service fees are based on processed revenue and other factors; for the

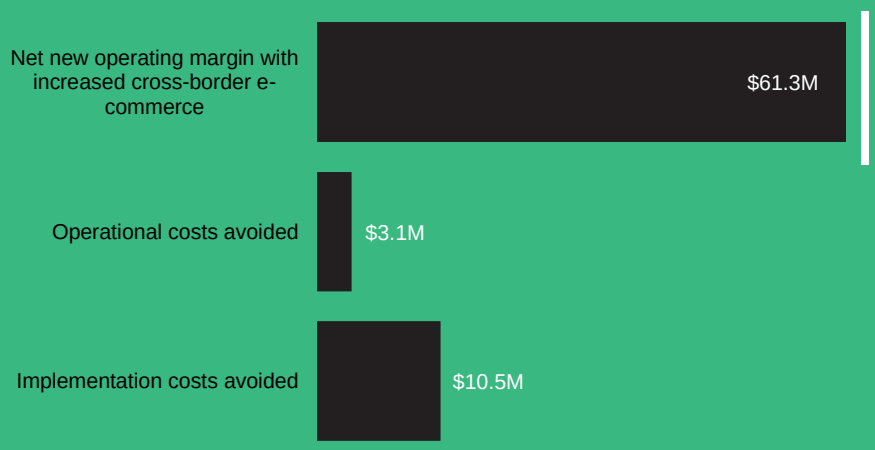
composite merchant this adds up to a three-year risk-adjusted PV of about $28.1 million.

- **Organizational resource costs.** With the integration of ESW, resources at the composite merchant are given new tasks related to ongoing management and communication. The cumulative costs of these ongoing and implementation tasks result in a three-year, risk-adjusted PV of nearly $58,000.

The customer interviews and financial analysis found that a composite merchant experiences benefits of $75.0M over three years versus costs of $28.2M, adding up to a net present value (NPV) of $46.8M and an ROI of 166%.

ROI	BENEFITS PV	NPV	TOTAL PV OF REVENUE PROCESSED BY ESW
166%	**$75.0M**	**$46.8M**	**$281.2M**

Benefits (Three-Year)



Net-new margin benefits are based on $281.2 million (PV) in revenue processed by ESW over three years.

"We count on ESW to be the experts, to keep our brand name in a good place in every country."

— Director, international finance, fashion 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 ESW.

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 ESW can have on an organization.

DUE DILIGENCE

Interviewed ESW stakeholders and Forrester analysts to gather data relative to ESW.

CUSTOMER INTERVIEWS

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

COMPOSITE MERCHANT

Designed a composite merchant based on characteristics of the interviewed retailers.

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 retailers.

CASE STUDY

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

DISCLOSURES

Readers should be aware of the following:

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

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

ESW 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.

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

The ESW Customer Journey

Drivers leading to the ESW investment

Interviewed retailers

Industry	Region	Interviewee	Total revenue
Fashion	European Union	Group global digital director	$1.8 billion
Sports and outdoor	European Union	Digital sales manager	$52 million
Fashion	European Union	Group director of e-commerce	$144 million
Fashion	USA	Director of international digital finance	$6.7 billion

KEY CHALLENGES

Before implementing ESW, interviewed retailers struggled to quickly activate new international markets, particularly those with more complicated cross-border considerations. These interviewed organizations often lacked the time and resources to consider all of the associated complexities. Attempting to open e-commerce in countries without regional experience for payments, tariffs, customs, and shipping led to slow delivery times for cross-border shipping, consumers receiving surprise costs, and total costs from international operations being greater than the sale price of the goods themselves.

The interviewed retailers struggled with common challenges, including:

- **Long delivery times for sending goods across borders.** Interviewed retailers saw extremely long delivery times when shipping their products to customers in foreign markets. For the sporting goods retailer, shipping to a neighboring country was problematic, as stated by the digital sales manager, "We stopped selling in a neighboring country, not even far from our offices, because delivery was taking one month or even one-and-a-half months just to go a few kilometers."
- **Costly customs and tariff costs.** The digital sales manager in the sporting goods retailer noted the role this barrier has in driving their company's ESW investment: "The reason we were looking for a cross-border solution is because we were initially managing all the countries directly. But when we started moving with countries like Norway and Switzerland [non-EU countries], we started facing big problems with customs."
- **Long implementation times for deploying their own cross-border, e-commerce solution.** Creating their own proprietary cross-border, e-commerce sites was an expensive option for interviewed retailers. The start-up costs involved significant resources and time. Interviewed companies knew that trying this on their own would take too long, and this method would permit them to prioritize only a few countries. The global director of e-commerce for a fashion

> **"Delivery was taking one month or even one-and-a-half months just to go a few kilometers."**
>
> *Digital sales manager, sporting goods retailer*

retailer said, “If I were to do this myself, it would amount to a project that takes more time to begin, costs more, and therefore takes more time to pay for itself.”

- **Not just e-commerce business, but cross-border e-commerce.** Cross-border e-commerce requires an amount of knowledge and experience that most retailers do not have. Interviewed retailers were looking for an e-commerce partner that could go beyond the basics and provide that local knowledge and support as well.

Key assumptions

- **$1.8B annual revenue**
- **$100M international e-commerce revenue**
- **6% of e-commerce through ESW**
- **$300 average order value**

COMPOSITE MERCHANT

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

Description of composite. The global, billion-dollar fashion retailer has a strong brand and a large retail presence in both department stores and in its own branded stores throughout many countries. It has an active e-commerce presence in several countries. It is based in Europe, and most EU countries are considered home territory where it manages its own e-commerce sites. It sells clothing and accessories with an average e-commerce shopping cart of $300.

Deployment characteristics. The composite merchant wanted to expand its digital reach into new countries while decreasing the operational costs that are associated with shipping, tariffs, and other cross-border complexities. It partnered with ESW to launch e-commerce sites in 50 countries at the start of Year 1, with an additional 40 more countries being added in Years 2 and 3. The first year focused on larger countries, including the United States, other non-EU European countries, Australia, China, and Japan. In Year 2, the composite merchant added more countries from South and Central America and Asia. Year 3 saw continued efforts and included some countries in Northern and Southern Africa.

Analysis Of Benefits

Quantified benefit data as applied to the composite

Total Benefits

Ref.	Benefit	Year 1	Year 2	Year 3	Total	Present Value
Atr	Net-new operating margin with increased cross-border e-commerce	$13,110,000	$27,930,000	$35,055,000	$76,095,000	$61,338,167
Btr	Operational cost savings	$902,500	$1,330,000	$1,615,000	$3,847,500	$3,133,002
Ctr	Avoided implementation costs	$5,016,000	$4,012,800	$3,511,200	$12,540,000	$10,514,380
	Total benefits (risk-adjusted)	$19,028,500	$33,272,800	$40,181,200	$92,482,500	$74,985,549

NET-NEW OPERATING MARGIN WITH INCREASED CROSS-BORDER E-COMMERCE

Evidence and data. With ESW's solution for cross-border shopping, checkout, and shipping, interviewed retailers were able to both widen their access to foreign markets and deepen their penetration of existing markets.

ESW enabled these organizations to increase their e-commerce revenue by getting access to markets that they were either unable to receive shipping or were difficult to ship to, due to a lack of understanding regulatory requirements, prohibitive costs, or long delivery times. The group digital director for a fashion retailer stated: "ESW is doing shipment and other logistics. With their help, we could activate many countries very quickly."

In addition to allowing interviewed retailers access new markets, ESW strengthened retailers' standing in existing foreign markets by ensuring shopping and checkout was localized in terms of currency and alternative payment types. The group digital director added, "Their checkout is performing much higher, better, than our old checkout."

- The sports goods retailer noted ESW's role in unlocking access to new markets that would have been inaccessible otherwise. "We are seeing in our analytics that a lot of people are checking our website," said its digital sales manager.
- The group digital director for a fashion retailer shared how ESW's platform has increased their organization's performance within existing markets as well, "Now, checkout is performing much better than before, in part because we now include common and popular local payment types for each country."

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

- Composite organization representatives estimated that before bringing in ESW, the total potential market opportunity in the 90 activated countries was $38M in Year 1, growing to $85M by Year 3.
- That market opportunity estimate is based on all countries that were activated by ESW; if the organization were on its own, it would only have been able to enter a fraction of the 90 countries reached by ESW, estimated to be half or less of the total revenue opportunity.
- Incorporating ESW's services lead to between 70% and 85% in annual lift above the organization's own market expectations, due to

Revenue processed by ESW:

75% lift

its local knowledge, expertise, and ability to reach more markets than the organization would be able to on its own.

- ESW's activation of more countries and greater local knowledge adds up to net new revenue of $46M in Year 1, growing to $123M in net new revenue by Year 3.
- The composite organization's e-commerce operating margin is 30%.

Risks. Factors that can impact these estimates include:

- Overestimating the amount of cross-border e-commerce revenue processed through ESW over time.
- Overestimation of cross-border e-commerce growth, e-commerce operating margin, or the share of new business.

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 over $61.3M.

Net-New Operating Margin With Increased Cross-Border E-commerce

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
A1	Actual merchant expected revenue from cross-border e-commerce activities (on its own)	Composite	$19,000,000	$28,000,000	$34,000,000
A2	Cross-border e-commerce market opportunity from countries activated by ESW	Composite	$38,000,000	$70,000,000	$85,000,000
A3	Estimated ESW uplift	Composite	70%	80%	85%
A4	Total estimated revenue processed through ESW, including current growth and uplift	A2*(1+A3) (rounded)	$65,000,000	$126,000,000	$157,000,000
A5	Net-new cross-border e-commerce revenue processed through ESW	A4-A1	$46,000,000	$98,000,000	$123,000,000
A6	E-commerce operating margin	Composite	30%	30%	30%
At	Net-new operating margin with increased cross-border e-commerce	A5*A6	$13,800,000	$29,400,000	$36,900,000
	Risk adjustment	↓5%			
Atr	Net-new operating margin with increased cross-border e-commerce (risk-adjusted)		$13,110,000	$27,930,000	$35,055,000
	Three-year total: $76,095,000		**Three-year present value: $61,338,167**		

OPERATIONAL COST SAVINGS

Evidence and data. ESW's platform includes more than just managing e-commerce sites, it is also able to take on shipping, payments, returns, customs, support, and other tasks. This means the interviewed retailers were able to avoid overloading its employees or hiring additional employees to keep up

with the international growth achieved with ESW. For example:

- The sporting goods retailer saw significant costs for customers making international orders. “We were paying all the costs and for some orders we were paying more than the order amount,” said the digital sales manager.
- The global digital director for a fashion retailer identified cost categories they would never have thought of on their own, “We would have not known about other carrier and logistics fees, because we were not in the position to do it by ourselves.”
- The director for the US retailer identified unintended international shipping results leading to added costs, “When the mailman showed up at a customer’s door, the package included postage due.” The retailer’s inexperience with customs led to increased costs for support, shipping, and returns.

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

- It is estimated that the organization, without ESW’s involvement, would have on its own gained about $19M in Year 1, growing to about $34M by Year 3.

Operational cost savings:

4% of cross-border revenue

- This is lower than the total market opportunity described in the previous benefit because it would not be able to activate as many countries on their own as they can with ESW.
- Operations costs related to shipping, returns, customs, tariffs, support, and other cross-border logistics added up to about 5% of the sale when retailers tried to conduct cross-border business on their own.
- As these tasks are now taken over by ESW for cross-border sales, these costs are avoided by the composite merchant.

Risks. The percentage of operating costs that ESW can help avoid may be overestimated, so to account for this risk, Forrester adjusted this benefit downward by 5%.

Results. The three-year, risk-adjusted total PV is $3.1M.

Operational Cost Savings

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
B1	Total revenue through ESW	A1	$19,000,000	$28,000,000	$34,000,000
B2	Percentage of operating costs avoided, included with ESW services	Composite	5.0%	5.0%	5.0%
Bt	Operational cost savings	B1*B2	$950,000	$1,400,000	$1,700,000
	Risk adjustment	↓5%			
Btr	Operational cost savings (risk-adjusted)		$902,500	$1,330,000	$1,615,000
	Three-year total: $3,847,500		**Three-year present value: $3,133,002**		

AVOIDED IMPLEMENTATION COSTS

Evidence and data. Interviewed retailers seeking to develop and launch their own cross-border e-commerce processes expected this investment to require a lot of resources and take a lot of time. To launch their e-commerce business in each country, the interviewed retailers would have needed a team consisting of resources including: a marketing manager, e-commerce manager, product manager, sales director, web developer, and one or more software engineers. With an implementation time of almost a year for each new target market, there would be a long delay from the start of investment to realizing its return — and these resources would be focused on this investment, and any time still available would be spent on maintaining and managing these new sites, instead of helping with growing existing national or international e-commerce business.

Additionally, after each of these markets have been activated, interviewed retailers feared their proprietary platforms would have been subpar compared to what ESW's specialized knowledge could provide. And as such, without greater investment staffing senior cross-border e-commerce experts, the interviewed retailers would have only been able to invest in activating those countries with the highest priority.

Implementation cost savings:

4 FTEs for 50 weeks per country

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

- ESW enables the activation of 50 countries in Year 1, with 30 more in Year 2, and 10 more in Year 3.
- Without ESW, the composite merchant on its own would have been able to activate 10 countries in Year 1, 8 more in Year 2, and 7 more in Year 3.
- Each of these countries would require a commitment of four FTEs working 50 weeks for implementation and ongoing maintenance and management.

Avoided Implementation Costs

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
C1	Countries activated through ESW	Composite	50	30	10
C2	Countries that would still have been activated without ESW	Composite	10	8	7
C3	Average FTE required per country throughout implementation	Composite	4.0	4.0	4.0
C4	Implementation duration per country (weeks)	Composite	50	50	50
C5	FTE fully burdened average hourly salary	$137,000 per year (rounded)	$66	$66	$66
Ct	Avoided implementation costs	C2*C3*C4*40*C5	$5,280,000	$4,224,000	$3,696,000
	Risk adjustment	↓5%			
Ctr	Avoided implementation costs (risk-adjusted)		$5,016,000	$4,012,800	$3,511,200
	Three-year total: $12,540,000		**Three-year present value: $10,514,380**		

- The hourly wage for these employees is assumed to be $66 an hour.

Risks. The number of resources or the amount of time required to activate each country can vary, and Forrester has applied a 5% risk adjustment for a more conservative estimate.

Results. The three-year, risk-adjusted total PV of avoided implementation costs is $10.5M.

UNQUANTIFIED BENEFITS

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

- **Maintaining brand value.** Interviewed retailers are confident that ESW can keep the quality of the shopping, buying, shipping, returns, and support experiences up to the retailer's standards, as well as it can improve upon those experiences better than the retailer could in cross-border markets. Before, excessive package delays or surprise tariff costs could damage customer relationships, meaning lost future sales. The global digital director for a fashion retailer highlighted efficient logistics: "ESW is aggressive. They are able to negotiate terms for lower fees and better services that we were never in a position to achieve."
- **ESW expertise and guidance.** Unexpected political or environmental events can impact sales and create rework if poorly timed. The global digital director for a fashion retailer highlighted how ESW's knowledge helps maintain business continuity even in the face of snowstorms and other unexpected events.

FLEXIBILITY

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

- **Omnichannel capabilities.** Now that e-commerce sites are activated in many countries and regions, retailers can expand internal integration, connecting inventory records, centralizing warehousing, and adding other ways to improve the link between store and e-commerce purchases. The director of e-commerce for a fashion retailer shared, "We are testing new features for our customers, including buy online and pick-up in store (BOPIS) and omnichannel gift cards." This can provide greater customer convenience, leading to more new and repeat customer sales.
- **Deepening current market penetration.** With the global cross-border reach realized in this analysis, with 90 countries being activated by Year 3, retailers can now focus on going deeper in each country or region, especially with those that have priority status. Once e-commerce is activated, retailers can focus on additional customer value such as more translated content, country- or region-specific marketing and advertising campaigns, and customer loyalty programs. These activities are expected to increase sales in these countries or regions, adding to total cross-border revenue and new margin benefits. The director of e-commerce for a fashion retailer said: "We plan to invest keenly in personalization, customer care, and relationship management."

> **"We need to keep the momentum going."**
>
> *Director, US fashion retailer*

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**
Dtr	ESW annual service fees	$0	$6,500,000	$12,600,000	$15,700,000	$34,800,000	$28,117,956
Etr	Organizational resource costs	$8,316	$19,958	$19,958	$19,958	$68,191	$57,950
	Total costs (risk-adjusted)	$8,316	$6,519,958	$12,619,958	$15,719,958	$34,868,191	$28,175,906

SERVICE FEES

Evidence and data. The ESW platform subscription is based on several factors, including revenue processed through the system.

For the composite merchant, this is estimated to range from $6.5M in Year 1 to $15.7M in Year 3 and result in three-year, risk-adjusted total PV (discounted at 10%) of $28.1M.

ESW Service Fees						
Ref.	**Metric**	**Calculation**	**Initial**	**Year 1**	**Year 2**	**Year 3**
D1	Average estimated ESW services fee			$6,500,000	$12,600,000	$15,700,000
Dt	ESW service fees	D1	$0	$6,500,000	$12,600,000	$15,700,000
	Risk adjustment	0%				
Dtr	ESW service fees (risk-adjusted)		$0	$6,500,000	$12,600,000	$15,700,000
Three-year total: $34,800,000			**Three-year present value: $28,117,956**			

ORGANIZATIONAL RESOURCE COSTS

Evidence and data. As shown in the Analysis Of Benefits section, overall operation costs are lower, but there are some new tasks, related to ESW management and communication, that resources at the composite merchant need to add, including:

- ESW implementation assistance.
- Coordination with the ESW team, including regular meetings.
- Coordinating complexities for cross-border sales.
- Collecting and reviewing sales, returns, support, and other data from sales managed through ESW.

For the composite merchant, this adds up to implementation assistance of one FTE for a few weeks, plus ongoing resource needs of about 4 hours per week.

To allow for underestimation, a 5% risk adjustment has been applied and added to this cost.

The three-year, risk-adjusted total PV is just over $58,000.

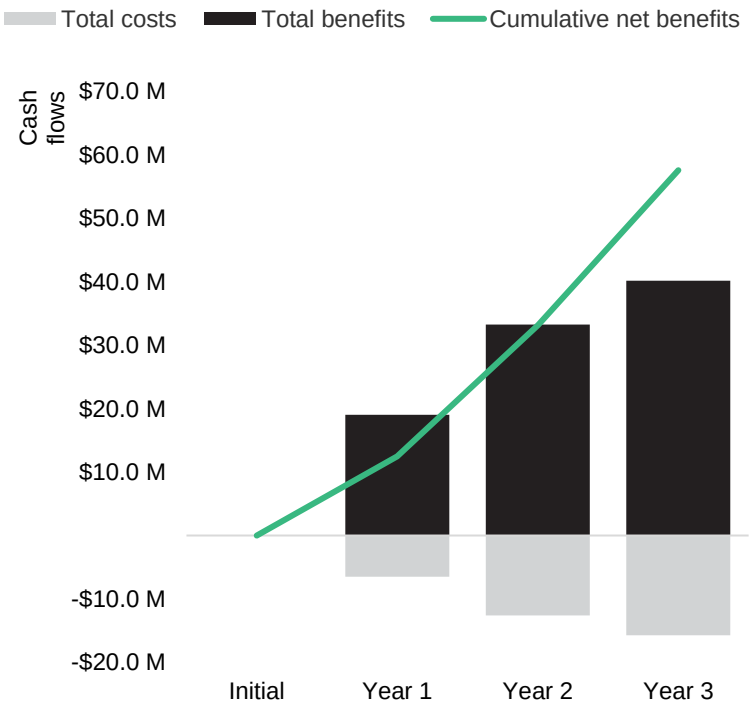
Organizational Resource Costs

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
E1	Implementation time (weeks)		3	2	2	2
E2	Organizational resources required (FTE), on average		1.0	1.0	1.0	1.0
E3	Ongoing net new resource requirements (FTE) per week, on average			0.1	0.1	0.1
E4	FTE fully burdened average hourly salary		$66	$66	$66	$66
Et	Organizational resource costs	(E1*E2*E4+ E3*52*E4)*40	$7,920	$19,008	$19,008	$19,008
	Risk adjustment	↑5%				
Etr	Organizational resource costs (risk-adjusted)		$8,316	$19,958	$19,958	$19,958
	Three-year total: $68,191			**Three-year present value: $57,950**		

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 and NPV for the composite merchant'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	($8,316)	($6,519,958)	($12,619,958)	($15,719,958)	($34,868,191)	($28,175,906)
Total benefits	$0	$19,028,500	$33,272,800	$40,181,200	$92,482,500	$74,985,549
Net benefits	($8,316)	$12,508,542	$20,652,842	$24,461,242	$57,614,309	$46,809,643
ROI						166%

Appendix A: Total Economic Impact

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

TOTAL ECONOMIC IMPACT APPROACH

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

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

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

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

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

PRESENT VALUE (PV)

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

NET PRESENT VALUE (NPV)

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

RETURN ON INVESTMENT (ROI)

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

DISCOUNT RATE

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

PAYBACK PERIOD

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

FORRESTER®