

FORRESTER®

The Total Economic Impact™ Of Sedex

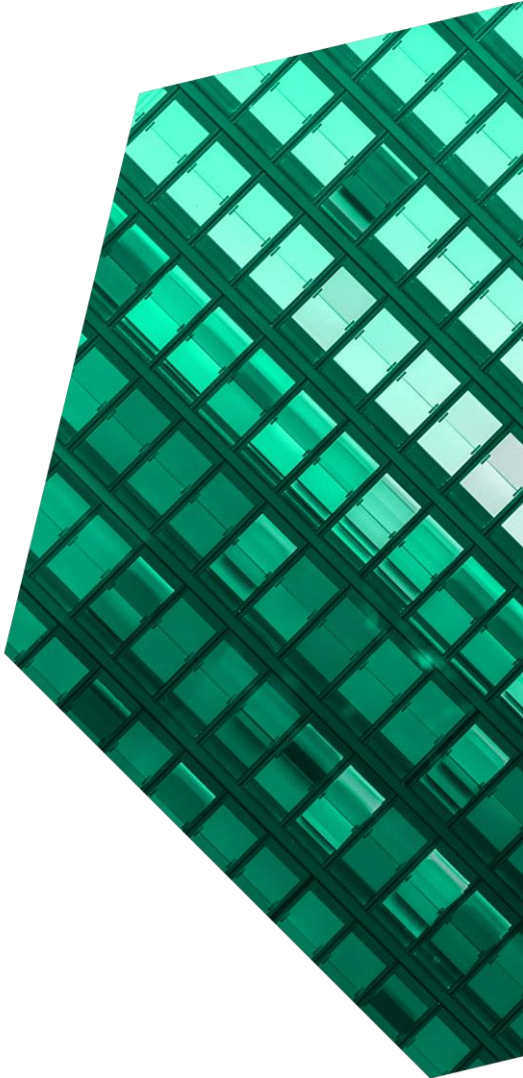
Cost Savings And Business Benefits
Enabled By Sedex

AUGUST 2024

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Consulting Team: Courtenay O'Connor
Zahra Azzaoui

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ABOUT FORRESTER CONSULTING

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Executive Summary

Evolving requirements of customers, partners, and investors — as well as emerging regulations across North America and Europe — are forcing firms to reshape their supply chain for resiliency.¹ To stay competitive in this changing context, firms must demonstrate sustainable supply chains that are both transparent and credible. Technologies support automation and data-driven decision-making in managing a sustainable supply chain to help firms preserve public trust in their values and brand.

Sedex is a technology company providing data, insights, tools, and services to empower sustainable supply chains globally. Its platform and solutions, which include the Sedex Members Sustainability Trade Audit (SMETA), are designed to support businesses to manage, improve and report on their supply chain ESG performance and practices. With over 340,000 unique risk scores across 248 countries, 99 industries, and 14 issue areas, and a globally recognized SMETA methodology assessment, Sedex provides sustainability supply chain managers a robust database, access to locally based auditors, and managed services for supplier onboarding.

Sedex commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) enterprises may realize by deploying Sedex.² The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of Sedex on their organizations.

To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed

KEY STATISTICS



Return on investment (ROI)

312%



Net present value (NPV)

\$746K

four representative customers with experience using Sedex. For the purposes of this study, Forrester aggregated the interviewees' experiences and combined the results into a single composite organization that is a global, fast-moving consumer goods company with 1,000 supplier sites and revenue of \$500 million per year.

Prior to using Sedex, these interviewees noted how their organizations lacked transparency and visibility into the sustainability practices of their ecosystem of global suppliers. They noted how manual processes and insufficient tools for sustainability supply chain managers left their organizations vulnerable to compliance and reputational risk.

After the investment in Sedex, the interviewees automated data gathering, improved risk assessment, and lowered audit costs while improving the quality of and confidence in the data underpinning their sustainable supply chain program. Key results from the investment include improved supply chain

Reduction in sustainable supply chain labor management costs:

70%



resiliency, improved risk posture, and the ability to meet evolving market and regulatory demands.

KEY FINDINGS

Quantified benefits. Three-year, risk-adjusted present value (PV) quantified benefits for the composite organization include:

- **Reduced sustainability supply chain management labor costs by up to 70%.** With Sedex, the composite avoids additional labor costs to meet complex emerging supply chain sustainability regulations, with savings of \$263,000.
- **Avoided audit costs of \$2,000 per supplier site.** With Sedex, the composite avoids the cost burden of auditing its suppliers and saves \$381,000.
- **Improved supply chain resiliency, with up to 2% of suppliers classified as high risk earlier.** With Sedex, the composite gains better insight into its sustainable supply chain risk. By identifying high risk suppliers early, the composite avoids the cost of replacing noncompliant, high-risk suppliers in situations where acceptable improvements are not achieved, with supply chain resiliency savings of \$37,000.
- **Retained profit for up to 5% of customers with increasing sustainable supply chain reporting requirements.** Without Sedex, the composite would risk losing up to 5% of its customers due to the inability to meet sustainable supply chain transparency requirements, retaining \$304,000 of at-risk profit by the end of Year 3.

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

- **Enhanced supply chain visibility.** With Sedex, the composite organization gains a comprehensive and transparent view of all

supplier sites with which it engages. This ensures that all elements of production abide by sustainability and ethical standards.

- **Protecting brand reputation.** With Sedex, the composite organization can improve its brand reputation and trust by embracing third-party risk and work site assessments that maintain stringent objectivity standards.
- **Improved customer satisfaction.** By engaging with Sedex to verify whether its supply chain meets sustainability standards, the composite organization can uphold the values that matter to its business and its customers. In turn, customers continue to engage with a company that aligns with their values.

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

- **Sedex membership and onboarding fees of \$63,000.** The composite pays annual Sedex membership fees, a one-time setup cost, and fees for supplier onboarding managed services.
- **Implementation effort of \$107,000.** The composite organization fully dedicates one FTE to deployment and implementation for 40 weeks.
- **Training costs of \$3,000.** To keep up with dynamic market changes, the sustainability supply chain manager undergoes 60 hours of Sedex training spread out across the three-year investment period.
- **Ongoing management costs of \$66,000.** Managing Sedex requires 20% of the sustainability supply chain manager's time.

The representative interviews and financial analysis found that a composite organization experiences benefits of \$985K over three years versus costs of \$239K, adding up to a net present value (NPV) of \$746K and an ROI of 312%.



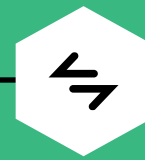
ROI
312%



BENEFITS PV
\$985K

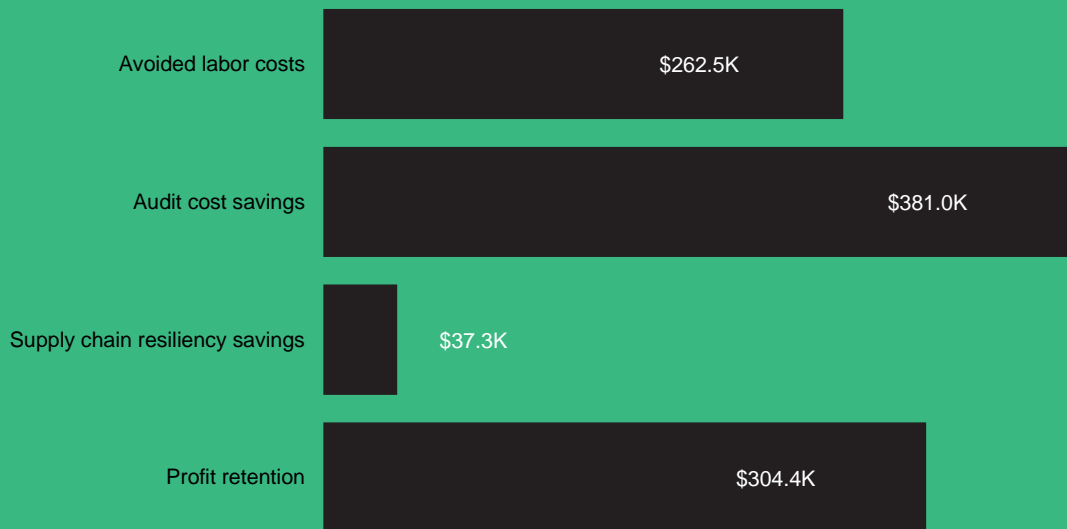


NPV
\$746K



PAYBACK
7 months

Benefits (Three-Year)



“You could lose billions of dollars in shareholder value in a day because of something in your supply chain, or you could pay a subscription to Sedex and have that due diligence done for you.”

— Senior sustainability manager, food

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 Sedex.

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 Sedex can have on an organization.

DISCLOSURES

Readers should be aware of the following:

This study is commissioned by Sedex 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 Sedex.

Sedex 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.

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



DUE DILIGENCE

Interviewed Sedex stakeholders and Forrester analysts to gather data relative to the Sedex.



CUSTOMER INTERVIEWS

Interviewed four decision-makers at organizations using the Sedex 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 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.

The Sedex Customer Journey

■ Drivers leading to the Sedex investment

Interviews			
Role	Industry	Region	Number Of Suppliers
Environmental, social, and governance (ESG) manager	Manufacturing	Multinational	45
Procurement manager	Beverage	Multinational	60
Sustainability manager	Food	UK	1,200
Senior sustainability manager	Food	Multinational	10,000+

KEY CHALLENGES

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

Increasing external pressures to report on sustainability practices. Interviewees listed a range of external pressures that compelled their organizations to invest in building an agile and compliant sustainable supply chain program, including:

- **Mounting ESG regulations.** Interviewees described how their organizations faced a complex, overlapping web of emerging compliance requirements from legislation across Europe and North America.

The senior sustainability manager in the food industry described the onslaught of supply chain regulations: “The ESG space itself is evolving at a really fast pace. Some of the regulations coming out [are] extremely new, like customs and border protections [regulations]. We operate in the US, Canada, Mexico, South America, Asia, Europe, and Africa, so we have to have standards of safety across our global operations. We [also] do internal safety audits — we use OSHA [Occupational Safety and Health Administration], and we have different ISO certificates at a site level.”

Customer Voices: Rising Regulations For Due Diligence

The ESG manager in the manufacturing industry explained how increasing sustainable supply chain regulations have made the investment in Sedex more critical than ever.

“The European Union [has] a [supply chain due diligence] directive that forces companies above a certain size to have a sustainable procurement process and to publish yearly reports on how they manage [sustainable] risk in their supply chain.

“[Before Sedex], we didn’t have as many regulations [because of our smaller company size]. Now, a lot of European Union regulations will [apply to us] in the next three to five years.

“[The EU holds organizations] accountable in case of any noncompliance within their own supply chain. ... By 2025 or 2026, most public contracts will not be available to companies if you don’t have a process like Sedex.”

“Some customers and distributors that we have today are government; some are big companies. They are increasing their prerequisites for awarding tenders. ESG is a big part of it, and it’s moving fast. If you don’t develop the approach at the same time, we may lose preexisting contracts.”

ESG manager, manufacturing

- **Increasing ESG pressures from customers and investors.** Interviewees reported that their customers and investors played a vital role in driving forward their sustainable supply chain programs.

The procurement manager in the beverage industry pointed out how their company’s investors were the driving force behind formalizing their sustainable supply chain program: “It’s a lot of our investors. They’re driving it, which is great because it shows that they want us to be accountable for [sustainability practices].”

The procurement manager in the beverage industry further indicated how customers have exerted their own pressure on the organization, saying, “Our consumers want to make sure that they’re [engaging in sustainable] business because they are the people who are buying [our products].”

The senior sustainability manager in the food industry shared how customer demands are impacted by emerging legislation: “Even before new legislation [passes], we have customers ask

us how we can be sure that we’re in compliance. We’ve then had to work with these [government] agencies, and we’ve [had to] provide audit reports and supplier names.”

Building sustainable supply chain programs from scratch. Most interviewees reported that Sedex was a vital part of building their organizations’ sustainable supply chain practice from the start. As such, before using Sedex, they lacked standardized data collection and audit tools in their prior environments. Interviewees further reported:

- **Insufficient processes and tools to mature their sustainable supply chain program.** Regardless of the maturity of their sustainable supply chain programs, customers indicated that their companies’ supply chain management environments prior to Sedex were incapable of meeting increasingly complex sustainable supply chain requirements.

The ESG manager in the manufacturing industry shared: “We use Sedex [now], but before we didn’t have anything. We didn’t have a process; we only had questions about costs, lead time, quality, etc.”

- **Time-consuming, costly, inadequate manual efforts for fledgling sustainable supply chain programs.** In companies coming from less mature sustainability supply chain environments, interviewees indicated that, without a prior solution in place, manual processes dominated. This manual effort was time-consuming, costly, and didn’t encompass the necessary expertise to:
 - Map out supply chains.
 - Collect data.
 - Conduct risk assessments.
 - Visit manufacturing sites.
- **Varying degrees of compliance.** The ESG manager in the manufacturing industry shared: “When we look at audit results, we see three

main categories of noncompliance. One is respect[ing] the [legal limitations of] working hours. We see systemic overtime very regularly in [our suppliers'] factories. The second is wearing the necessary protective personal equipment and applying safety rules within the factories. Usually it's minor noncompliance [events that are] easy to solve, but it's something we see quite often. The last one is dealing with hazardous chemical substances properly, in which sometimes the labeling is not entirely correct, or the separation of both hazardous and nonhazardous substance is not properly done."

- **Limitations on operational scalability.** As requirements for sustainable supply chain visibility increase, interviewees noted that remediating incidents and noncompliance findings complicated already complex supply chain management efforts.

The procurement manager in the beverage industry described the challenges related to remediating suppliers' sustainability violations and driving improvement. They cautioned: "It will take teams to change a supplier. There are not that many suppliers, and we have long-term contracts with some of them, so we need to ensure that we are maintaining the components of our contract. If we needed a new supplier, there would be a lot of work on our end to try to locate a supplier, to negotiate pricing."

Lack of transparency and visibility into sustainable supply chain risks. Interviewees described the challenges their organizations have faced in recent years, as well as the negative impacts that can arise from these challenges.

- The sustainability manager in the food industry described the recent challenges the COVID-19 pandemic has imposed on sustainability supply chain management programs: "For the past three years, people haven't been able to travel to visit suppliers. We have done technical audits on

[video calls]. But there is a shortage of auditors, so it's been difficult."

- The sustainability manager in the food industry shared: "We buy from so many countries across the world in so many different supply chains that are risky, [so] we need to have visibility of where we're buying from."

INVESTMENT OBJECTIVES

The interviewed organizations searched for a solution that could:

- **Establish a single source of truth for all sustainable supply chain data.** Interviewees shared their organizations' goals to increase visibility into different supply chains across the world, with varying risks at scale.

The ESG manager in the manufacturing industry shared: "We have [a process] integrating Sedex ... to [help us] do risk assessments and share audit results. If [you are working] in Europe and there are more than 250 people [in your company], there are only a few tools that allow you to [manage risk in your supply chains], and Sedex is one that can save costs."

The procurement manager in the beverage industry reported: "[Several years ago], we implemented a goal to have a sustainable and responsible supply chain, so that really falls in Sedex's wheelhouse in terms of sustainability and responsible social impact. [Our suppliers] know that we are looking at the information [in Sedex] on a regular basis. We want to know and to make sure that [our suppliers] are operating responsibly and comply with our supplier standards."

The ESG manager in the manufacturing industry noted several of their organization's investment objectives for Sedex: "Standardizing the data collection, providing standardized risk assessment tools, which we didn't have before, and same for the audit. I'm in charge of developing the ESG roadmap for the group, which includes developing the sustainable procurement approach. [That is] why we joined Sedex last year, and I work closely with the sourcing teams we have, which are based in France, Italy, and Asia to help us develop a sustainable procurement process."

- **Enable a sustainable supply chain that complies with evolving ESG demands and regulations.** The senior sustainability manager in the food industry shared how their organization leveraged Sedex from their customers to their suppliers: "So many of our customers have online surveys, assessments, even training programs that we must go through. We really want to do the same thing with our suppliers to ensure that our suppliers aren't just ticking a box around our code of conduct — but really are attesting to it."

"We want to make sure we're doing right by the communities that we're operating in [by] ensuring that [violations are] not occurring."

Senior sustainability manager, food

"More and more, we want to take into account the [sustainable] and environmental risk when we make sourcing decision like awarding a new contract to suppliers or looking for new suppliers."

ESG manager, manufacturing

WHY SEDEX

Interviewees listed several factors that led to their organizations' decision to invest in Sedex for sustainable supply chain management. Broadly, interviewees described Sedex as a reputable industry leader and underscored the value and reliability of SMETA methodology and credibility of a robust, in-person, third-party audit.

- The ESG manager in the manufacturing industry noted: "We looked at different solutions. We chose Sedex because it was the one mostly used by our own customers. Also, they not only provide risk assessment tools, but they also have their own audit standards."
- The sustainability manager in the food industry shared: "With Sedex, you have the Self-Assessment Questionnaire [SAQ], but then you have the audit to validate it, which I think is great — no one else does that. Sedex encourages [suppliers] to own the process. On Sedex, suppliers know that as soon as [their audit] is on there, everybody they deal with can see it, and I think that's a real advantage of the platform."
- The senior sustainability manager in the food industry shared: "The value of Sedex is having the technology and the data all together. Not only do we get the SMETA audit framework from Sedex and the platform to conduct auditing of ourselves and our suppliers, but then we also get the ability to feed that data into their risk tools, like their Radar tool. That combines the indicators all together into a dashboard, and that's all automated via their software technology."
- The procurement manager in the beverage industry shared: "Sedex covers quite a bit in terms of the responsible sourcing, including the human rights, labor practices, and then also with [sustainability] and compliance in terms of whistleblower questions. We feel it's like it's a very good place for [managing] our direct materials."

Sedex Platform Elements

Interviewees described key elements of the Sedex platform.

- **Self-Assessment Questionnaire (SAQ).** Suppliers complete the SAQ about their business practices and upload this to Sedex.
- **Sedex Members Ethical Trade Audit (SMETA) methodology.** SMETA is an audit format compiling good practice in sustainable audit techniques designed to help auditors conduct high-quality audits that encompass all aspects of responsible business practice created by the Sedex Stakeholder Forum (previously the Sedex Associate Auditor Group).
- **Radar risk assessment tool.** This tool assesses inherent risk by country and sector and reviews suppliers' information on individual sites regarding sustainable risks.

“Sedex does a great job in terms of understanding all the human and labor rights practices going on, and they ask questions on that [in the Self-Assessment Questionnaire].”

Procurement manager, beverage

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 fast-moving consumer goods composite organization has \$500 million in annual revenues from business segments, including B2C sales, B2B sales, and public sector contracts. Headquartered in North America, the company has global operations and distributed supply chains, with 5,000 employees. In total, the composite organization has 1,000 supplier sites in its supply chain. Note some suppliers have multiple sites, so the number of suppliers and number of supplier sites are not the same.

Without Sedex, the composite organization's sustainable supply chain would have been managed by manual processes to aggregate, contextualize, and integrate data from various sources. Suppliers are audited every two years, and without Sedex, the composite organization would bear the cost burden of supplier audit fees.

The composite organization's largest business unit represents 20% of total revenues and 50% of its supply chain. A significant portion of revenue from this business segment comes from public sector contracts and B2B relationships that require increasing levels of scrutiny year over year. Without investment in Sedex, up to 5% of these contracts would be at risk of nonrenewal due to the inability to meet minimum sustainable supply chain transparency requirements.

Deployment characteristics. The composite organization deploys Sedex within its main business segment's supply chain over the three-year investment period.

In Year 1, the composite organization onboards 20% of the business segment's multitier suppliers to Sedex. The portion increases to 35% in Year 2, with half of the suppliers in its sustainable supply chain program onboarded to Sedex by Year 3.

Key Assumptions

- **\$500 million annual revenue, 5% at risk**
- **5,000 employees**
- **1,000 supplier sites**

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	Avoided labor costs	\$107,100	\$107,100	\$102,000	\$316,200	\$262,510
Btr	Audit cost savings	\$90,000	\$157,500	\$225,000	\$472,500	\$381,029
Ctr	Supply chain resiliency savings	\$5,220	\$15,660	\$26,100	\$46,980	\$37,297
Dtr	Profit retention	\$51,000	\$119,000	\$212,500	\$382,500	\$304,365
	Total benefits (risk-adjusted)	\$253,320	\$399,260	\$565,600	\$1,218,180	\$985,201

AVOIDED LABOR COSTS

Evidence and data. Interviewees reported several ways in which Sedex helped their sustainable supply chain programs save time while increasing the quality and confidence in their supplier site and risk assessments.

- The procurement manager in the beverage industry noted: “[Without Sedex], it would be much more difficult [and] take significantly more time [to manage our supply chain sustainability program]. It would be more than a full-time job to get this information from [this] many suppliers. [Now] the reporting doesn’t take me a long time — [it] has been automated based on Sedex’s reports. I think the benefit of the Sedex platform is that once you’ve connected and the supplier shares the correct visibility with you, that audit information associated with that supplier [and their sites] is there for you to take and work with as you wish.”
- The ESG manager in the manufacturing industry noted that Sedex helped their organization avoid the need to hire additional resources while also providing more credibility than investing in another in-house resource: “If we had wanted to

[manage the audit] ourselves, it would cost at least four to five times more. We would have needed to hire a trained person who would know the topic in detail. I’m not sure it would be enough because we would not have had access to the SMETA audit, which is very valuable and only exists for Sedex.”

- The sustainability manager in the food industry shared: “I think Sedex takes a lot of burden off our sustainability, compliance, [and] even procurement teams who have to not only manage typical procurement activities but then also be the expert on some of these risk areas related to human [rights], labor, and the environment. So the ability to arm a procurement person, or whoever has a supply relationship, with the intelligence they [need to determine if a supplier] is a great partner [or if there are] some risks associated with them [is critical].”

Modeling and assumptions. Forrester assumes the following about the composite organization:

“We don’t have to download indicators and rankings of different countries that are high-risk for children’s labor, wages, [and] forced labor and then build our own database of risk. We can just utilize it all in one place. It’s been really helpful to see that all in one dashboard.”

Senior sustainability manager, food

“Sedex has been a partner [in helping us adapt to] the momentum and changing landscape of ESG.”

Senior sustainability manager, food

“It’s not really feasible to have this type of process without Sedex. We could build our own questions during our quality audits and try to make an assessment, but it will never be as strong as the standard proof that we are Sedex members for our customers and distributors.”

ESG manager, manufacturing

- The composite dedicates one FTE to sustainability supply chain management for its largest business segment.
- Without Sedex, the composite would need to dedicate additional resources to comply with emerging supply chain regulations and the growing number of suppliers their organizations work with. It would need 50% of an additional resource dedicated to sustainable supply chain management, increasing to 75% dedicated in Year 2. By Year 3, the growing regulatory requirements would require two resources fully dedicated to sustainability supply chain management.
- With the investment in Sedex, the composite organization avoids dedicating up to 70% additional labor effort to meet emerging supply chain regulations.
- The sustainability supply chain manager’s fully burdened annual salary is \$120,000.

Risks. Forrester recognizes that these results may not be representative of all experiences, and the benefit will vary among organizations depending on the following factors:

- The number, expertise, and salary of FTEs managing the sustainable supply chain of the business segment.
- The amount of effort required to comply with emerging supply chain regulations.
- The complexity and rate of change of regulations concerning a company’s sustainability supply chain management. Certain industries may face more regulatory requirements.

Results. To account for these risks, Forrester adjusted this benefit downward by 15%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of \$263,000.

Avoided Labor Costs					
Ref.	Metric	Source	Year 1	Year 2	Year 3
A1	FTEs managing business segment ethical supply chain without Sedex investment	Composite	1.00	1.00	1.00
A2	Additional FTEs needed to comply with emerging supply chain regulations without Sedex investment	Composite	0.50	0.75	1.00
A3	Total FTEs needed to comply with emerging supply chain regulations without Sedex investment	A1+A2	1.50	1.75	2.00
A4	Avoided additional labor effort to meet emerging supply chain regulations with Sedex investment	Interviews	70%	60%	50%
A5	Fully burdened annual salary	TEI standard	\$120,000	\$120,000	\$120,000
At	Avoided labor costs	A3*A4*A5	\$126,000	\$126,000	\$120,000
	Risk adjustment	↓15%			
Atr	Avoided labor costs (risk-adjusted)		\$107,100	\$107,100	\$102,000
Three-year total: \$316,200			Three-year present value: \$262,510		

AUDIT COST SAVINGS

Evidence and data. Companies that paid audit fees for suppliers prior to investing in Sedex were able to avoid these fees while improving the quality of their audit results.

- The ESG manager in the manufacturing industry shared that their organization avoided audit costs: “Without Sedex, we would have had to pay for [third-party audit], but [with Sedex], we have access to 18 audit results from that, and one audit costs about €2000. So the gain for us is around €36,000 [every two years]. You only [conduct] one audit for the supplier and several people can see the results. [That’s] something that is only done through Sedex.”
- The sustainability manager in the food industry shared: “If we commissioned audits on our own, it would become complicated. On the Sedex platform, the suppliers are working towards the standards the SMETA methodology assesses against, which is linked to the [international code of labor practice founded by International Labor Organization (ILO)].”

Even when interviewees reported that their organizations did not pay for audit fees in the prior environment, they indicated that the quality of audits was more robust than it would be without the investment in Sedex.

The sustainability manager in the food industry shared: “It’s all about transparency and supply chain. That’s really the value of Sedex and the audit framework that [is implemented] on-site in all countries around the world.”

Modeling and assumptions. Forrester assumes the following about the composite organization:

- In the prior environment, the composite has 500 supplier sites in the largest business segment to manage as part of its sustainable supply chain program.³

- In Year 1, the composite organization onboards 20% of suppliers to Sedex. The portion increases to 35% in Year 2, with half of the suppliers in its sustainable supply chain program onboarded to Sedex by Year 3.
- Suppliers are audited every two years, meaning in any given year, half of the suppliers undergo an audit.
- Without Sedex, the composite organization would pay \$2,000 audit fees per supplier site.

“I like that a third party does [our audits] because when it’s a third party, it is just more credible.”

Procurement manager, beverage

Risks. Forrester recognizes that these results may not be representative of all experiences, and the benefit will vary among organizations depending on the following factors:

- The total number of suppliers included in a sustainable supply chain management program and to be onboarded to Sedex. Note some suppliers have multiple sites, so the number of suppliers and number of supplier sites are not the same.
- Supplier audit history. Some supplier sites may already have a Sedex membership and have been audited within the past two years.
- The rate at which suppliers are onboarded to Sedex.
- The frequency with which a company audits its suppliers.

- The cost per audit per supplier before Sedex, as well as the cost burden. Companies that do not cover the supplier audit fees would not experience this benefit.

Results. To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV of \$381,000.

Audit Cost Savings					
Ref.	Metric	Source	Year 1	Year 2	Year 3
B1	Total number of suppliers in prior environment	Composite	500	500	500
B2	Percent of suppliers onboarded to Sedex	Composite	20%	35%	50%
B3	Number of suppliers onboarded	B1*B2	100	175	250
B4	Percentage of suppliers undergoing an audit	Interviews	50%	50%	50%
B5	Cost of audit per supplier before Sedex	Interviews	\$2,000	\$2,000	\$2,000
Bt	Audit cost savings	B3*B4*B5	\$100,000	\$175,000	\$250,000
	Risk adjustment	↓10%			
Btr	Audit cost savings (risk-adjusted)		\$90,000	\$157,500	\$225,000
Three-year total: \$472,500			Three-year present value: \$381,029		

SUPPLY CHAIN RESILIENCY SAVINGS

Evidence and data. With Sedex, interviewees described how the Sedex risk framework provided clear information to facilitate early conversations with potentially high-risk suppliers. In effect, these conversations helped reduce supplier churn for some interviewees, rendering their supply chain more resilient.

- The senior sustainability manager in the food industry noted: “[We are] really trying to understand which of our suppliers are highest-risk. We feel [Sedex offers] a very robust methodology that we feel comfortable relying upon. We use them at our sites and will continue to require them from suppliers that we ultimately designate as extremely high-risk to ensure that they are following the guidelines of our internal social accountability management system. We’ve targeted certain suppliers in certain geographies and really worked with them to opt to onboard, and in some cases, they have and they’re providing information about their operations via the platform; in some instances, we’ve had suppliers undergo audits to fully [verify] that they’re operating in a safe manner. These audits could turn up very [sensitive information] like intellectual property.”
- The procurement manager in the beverage industry described what their organization’s sustainable supply chain program would look like with and without their company’s investment in Sedex: “[Without Sedex,] we would be unable to see and understand what [our suppliers’] business practices were. In our organization, it comes right down from the top level [of the company]: We work the right way. We’re not going to engage in business that is unfair [or] unsustainable— that is a key component of how we do business with our customers and how we want our suppliers to do business as well.”

- The procurement manager in the beverage industry also noted: “I do think that the more suppliers we [continue to] involve within our Sedex monitoring platform, [the more] we will reduce the overall risk to our organization quantifiably. The [potential impact of] bad press is immeasurable and can really stay with a company [for a] long [time] and inflict a lot of damage.”

“We use [Sedex] to raise a flag in case there was any [supplier or site] that we felt questionable about. There’s a lot of work that goes into changing a direct material supplier. So Sedex is like a [potential] warning system. ... If we start to see [a supplier] sliding in their Sedex scores or not complying with [sustainability standards], we start asking a lot more questions in that space.”

Procurement manager, beverage

Modeling and assumptions. Forrester assumes the following about the composite organization:

- With the Sedex investment, the composite organization onboards 100 supplier sites in Year 1, 175 supplier sites in Year 2, and 250 supplier sites by the end of Year 3.
- By using Sedex, the composite organization identifies 1% of suppliers onboarded to Sedex as high-risk in Year 1. This increases to 1.5% in

Year 2, with 2% of suppliers onboarded to Sedex identified as high-risk by the end of Year 3.

- Without Sedex, the composite would dedicate 100 hours to replacing a high-risk supplier in situations where acceptable improvements are not achieved.
- The sustainability supply chain manager's fully burdened hourly rate is \$58.

Risks. Forrester recognizes that these results may not be representative of all experiences, and the benefit will vary among organizations depending on the following factors:

- The total number of supplier sites included in a sustainability supply chain management program and the rate at which they are onboarded to Sedex. Note some suppliers have multiple sites, so the number of suppliers and number of supplier sites are not the same.
- The portion of suppliers identified as high-risk in the prior environment.
- The total hours required to replace a high-risk supplier in the prior environment.
- The number, expertise, and salary of FTEs managing the business segment's sustainable supply chain.

Results. To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV of \$37,000.

Customer Voice

The procurement manager in the beverage industry revealed that the Sedex investment has enabled their organization to cultivate stronger relationships with their suppliers.

- “With Sedex, we are having meaningful conversations with our key suppliers. We are talking to them about Sedex, about why we use it, and why we want them to be part of the program. I think it helps them understand that this isn't something we take lightly. I think it's really important, and it's fostering a lot of conversation.
- “[Sedex] is improving our relationship with our suppliers by making it stronger and helping everyone understand that this is something that we believe in very strongly. [Our suppliers] know that we are looking at this information on a regular basis. We're not just skimming the surface.”
- “It's very costly to switch suppliers if you do have an issue, and Sedex gives you the visibility to have those conversations to help you avoid that.”
- “[In terms of] supply base, I think [Sedex] is really impactful for [helping suppliers] understand [sustainable] policies, practices, and procedures a little bit more clearly and understanding what they can do to improve in that space.”

Supply Chain Resiliency Savings					
Ref.	Metric	Source	Year 1	Year 2	Year 3
C1	Number of suppliers onboarded	B3	100	175	250
C2	Percentage of suppliers identified as high-risk using Sedex	Composite	1.0%	1.5%	2.0%
C3	Total number of high-risk suppliers	C1*C2	1	3	5
C4	Hours dedicated to replace a high-risk supplier without Sedex	Interviews	100	100	100
C5	Sustainability supply chain manager fully burdened hourly rate	A5/2,080	\$58	\$58	\$58
Ct	Supply chain resiliency savings	C3*C4*C5	\$5,800	\$17,400	\$29,000
	Risk adjustment	↓10%			
Ctr	Supply chain resiliency savings (risk-adjusted)		\$5,220	\$15,660	\$26,100
Three-year total: \$46,980			Three-year present value: \$37,297		

Market Perspective: Costs Of A Sustainable Supply Chain Incident

According to Forrester research, organizations must develop formal risk management strategy to accommodate evolving global risk factors.⁴ Organizations that do not invest in a risk assessment tool like Sedex leave their supply chains vulnerable to internal and external disruptions, which may have the following impacts:

Internal Costs

- Regulatory fines
- Customer compensation
- Customer lawsuits/punitive damage
- Additive audit and security compliance costs

External Costs

- Lost revenues/loss of business due to system downtime
- Lost revenues from customer loss
- Cost to rebuild brand equity
- Customer churn/cost to acquire new customers

PROFIT RETENTION

Evidence and data. With changing demands from large companies and the public, interviewees reported that Sedex has played a vital role in allowing them to retain customers who choose to engage exclusively with organizations that adhere to sustainable supply chain standards. By leveraging Sedex to comply with ESG standards, organizations were able to maintain profit that would have otherwise been lost.

- The ESG manager in the manufacturing industry shared: “We had to build a business case for Sedex for our CEO, but it was quite easily accepted, as it’s a prerequisite for some tenders we have now. Especially in Europe, we need to provide proof of what we do with our supply chain risk assessment process and develop them also from a legal perspective. [With Sedex], we [are able to] keep opportunities open, whereas without [Sedex], we would lose some business. We operate globally and I’d say, [without Sedex], in three years we could lose roughly about 3% to 10% of that business.”
- The senior sustainability manager in the food industry noted: “We do have customers who [made] sure we weren’t operating in certain parts of [the world] that have come under scrutiny because of forced labor issues. Almost all of our largest customers require Sedex ... so there is a significant portion of our multimillion [dollar] revenue that absolutely requires us to have SMETA audits. We [lost a very large customer deal] because we could not [verify] we did not have [a certain risk] in our supply chain, so they closed the deal [and there] is a revenue number associated with that.”

Modeling and assumptions. Forrester assumes the following about the composite organization:

- Twenty percent of the composite organization’s annual revenues, or \$100 million, comes from its largest business segment.

“The best is to work with a partner like Sedex. That will save cost and also provide strong proof in case of any scrutiny or any tender process you may have. You have to show you’ve done your part of the work to avoid the issues like [sustainable] malpractice or noncompliance.”

ESG manager, manufacturing

“We have been able to provide the SMETA audit reports to customers or to customers’ third-party assurance companies. That way, we can get a deal with a customer or provide transparency into our operations. This provides them [with] a level of comfort that they’re not going to be perpetuating forced labor in their supply chain. We’ve used the actual outputs of the Sedex platform to provide proof of that.”

Senior sustainability manager, food

- For this business segment, a growing number of customers, including customers from the public sector, require sustainable supply chain reporting from their vendors. In Year 1, this portion is 3%, increasing to 4% in Year 2. By the end of Year 3, 5% of customers from the composite organization’s primary business segment require sustainable supply chain transparency.
- In Year 1, the composite organization onboards 20% of suppliers to Sedex. The portion increases to 35% in Year 2, with half of the suppliers in its sustainable supply chain program onboarded to Sedex by Year 3.
- The composite organization has a 10% operating margin.

Risks. Forrester recognizes that these results may not be representative of all experiences, and the benefit will vary among organizations depending on the following factors:

- The portion of revenue at risk due to increased customer demands for sustainable supply chain reporting.
- The total number of suppliers included in a sustainability supply chain management program, and the rate at which they are onboarded to Sedex.
- A company’s operating margin.

Results. To account for these risks, Forrester adjusted this benefit downward by 15%, yielding a three-year, risk-adjusted total PV of \$304,000.

Profit Retention					
Ref.	Metric	Source	Year 1	Year 2	Year 3
D1	Business segment annual revenue	Composite	\$100,000,000	\$100,000,000	\$100,000,000
D2	Percentage of revenue from customers that require sustainable supply chain reporting	Interviews	3%	4%	5%
D3	Percentage of supply chain onboarded	Composite	20%	35%	50%
D4	Operating margin	Composite	10%	10%	10%
Dt	Profit retention	D1*D2*D3*D4	\$60,000	\$140,000	\$250,000
	Risk adjustment	↓15%			
Dtr	Profit retention (risk-adjusted)		\$51,000	\$119,000	\$212,500
Three-year total: \$382,500			Three-year present value: \$304,365		

UNQUANTIFIED BENEFITS

Interviewees mentioned the following additional benefits that their organizations experienced, but were not able to quantify:

Stronger brand reputation and improved customer satisfaction. Interviewees shared that their organizations' investment in Sedex helped bolster their organizations' brand image.

- The senior sustainability manager in the food industry noted: "The SMETA framework allows us to feel comfort that we have an external party validating what our culture and values are. We can say all day that we're safety focused, that we [care about integrity], but [Sedex] provides assurance to customers, stakeholders, and other parties that we put our money where our mouth is. We're dedicated to ensuring our communities and our employees are treated fairly."
- The ESG manager in the manufacturing industry stated: "The fact that [Sedex] is something standard and recognized by our customer is the most added value that we have. The reputational gain that we have [experienced] by using Sedex is just not something we can replicate easily at all. The platform itself and the risk assessment tools that they have are based on external public or recognized data ... that we cannot produce ourselves. Or if we do, we may be accused of making our own recipe. Having Sedex backing, that is proof of objectivity."
- The sustainability manager in the food industry shared: "We expect and really do try to push suppliers to be on Sedex because we almost feel like the Sedex methodology of the low, medium, [and] high risk is a great way to illustrate we're using a third-party methodology. It has some recognition globally —people know what Sedex is. So, if we say we're using that to manage the risks and how we approach them in our supply chain, it's a well-recognized tool that people know"

“One example of external disclosures that we make is that we are one of the 100 most ethical companies. The survey [we filled out to be on that list] requires a lot of information around what do we do in our operations to ensure we have safe working environments. We referenced the fact that we use Sedex. I know there’s a lot of other areas that my colleagues or peers on the sustainability team that can answer these kinds of external surveys [using] Sedex as proof.”

Senior sustainability manager, food

FLEXIBILITY

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

Interviewees described ways in which their organizations may reap further benefits from their existing investment in Sedex.

- The procurement manager in the beverage industry described plans to extend their current use of Sedex to cover a larger proportion of key suppliers to continue improving visibility: “Forty-one percent of our key suppliers [are on Sedex]. Our goal is to get closer to 80% to 90% of our key suppliers being monitored through the Sedex platform so that we [can] have greater visibility.”
- The senior sustainability manager in the food industry shared that Sedex will help their organization keep pace with the mounting global supply chain risks that have the potential to impact their organization in the future: “I think with the labor shortages around the world, that risk is climbing, so being able to use Sedex is paramount, and I think our use will only grow in future years.”
- The senior sustainability manager also expressed that exploring additional Sedex offerings will help expand their knowledge of the ever-evolving regulatory environment: [We plan on] really taking advantage of the improvements that [Sedex is] making. I think if we were to do more investing, [it would be on] supplier onboarding. Sedex has consulting offerings and can really be a partner in terms of understanding the regulatory environment, so there is an opportunity to invest more.”

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	Sedex membership and onboarding fees	\$9,449	\$21,629	\$21,629	\$21,629	\$74,336	\$63,237
Ftr	Implementation effort	\$106,720	\$0	\$0	\$0	\$106,720	\$106,720
Gtr	Training costs	\$1,276	\$638	\$766	\$957	\$3,637	\$3,208
Htr	On-going management costs	\$0	\$26,541	\$26,541	\$26,541	\$79,622	\$66,003
	Total costs (risk-adjusted)	\$117,445	\$48,808	\$48,935	\$49,127	\$264,315	\$239,168

SEDEX MEMBERSHIP AND ONBOARDING FEES

Evidence and data. Interviewees described the value proposition of Sedex subscription fees, setup costs, and optional supplier onboarding fees.

- The senior sustainability manager in the food industry shared: “I think we certainly can use Sedex more and more. One of the greatest values of Sedex is its low-cost annual subscription fee. [At first], we had gone straight to suppliers ourselves and asked them to onboard, and that’s challenging, so the supplier onboarding service is very helpful. It’s an FTE to do a responsible sourcing program correctly, and that’s what Sedex provides. If you want to outsource part of that, wherever you are on your journey, they can really customize it.”
- The ESG manager in the manufacturing industry shared: “We have 45 suppliers, [and it cost] £50 per supplier for the onboarding process. In total, we paid £2,000 to get the onboarding process done by Sedex. It was not very costly. They were calling and helping the suppliers to onboard. If [we] were to do it [ourselves] ... I would say [it would take at least] 2 to 3 hours per supplier, [which is] 90 to 150 hours total.”

Modeling and assumptions. Forrester assumes the following about the composite organization:

- The composite pays annual Sedex membership fees of \$18,099.
- The composite pays a one-time setup cost of \$8,999.
- The composite engages Sedex’s supplier onboarding managed service at a cost of \$2,500 annually.
- Pricing may vary. Contact Sedex for details.

Risks. Forrester recognizes that these results may not be representative of all experiences, and the cost will vary among organizations. An organization’s membership fee is assessed based on a company’s annual revenues. Not all organizations engage in Sedex’s supplier onboarding managed service and would therefore not pay this cost.

Results. To account for these risks, Forrester adjusted this cost upward by 5%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of \$63,000.

Sedex Membership And Onboarding Fees						
Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
E1	Sedex membership fees	Composite	\$0	\$18,099	\$18,099	\$18,099
E2	Sedex set up cost	Composite	\$8,999	\$0	\$0	\$0
E3	Sedex supplier onboarding managed service	Interviews	\$0	\$2,500	\$2,500	\$2,500
Et	Sedex membership and onboarding fees	E1+E2+E3	\$8,999	\$20,599	\$20,599	\$20,599
	Risk adjustment	↑5%				
Etr	Sedex membership and onboarding fees (risk-adjusted)		\$9,449	\$21,629	\$21,629	\$21,629
Three-year total: \$74,335.80			Three-year present value: \$63,237.00			

IMPLEMENTATION EFFORT

Evidence and data. Interviewees described the initial steps required to begin basic use of the Sedex platform.

- The ESG manager in the manufacturing industry shared: “As we are a buyer/supplier, we are also a supplier to customers, [so we] have to insert our Self-Assessment Questionnaire as well. That may take some time depending on whether you’re prepared with the documents. ... If you need to gather documents for the answers, it may take up to a week and a half [of] full-time [effort] to answer the question and gather the proof data. We had internal costs, as teams had to be in contact with our suppliers, spend time with them to explain what Sedex is, and ask some again and again to join. If I had to [estimate], I’d say it took about two to three weeks [of] full-time [effort] for one person for an eight-month period.”
- The procurement manager in the beverage industry shared their organization’s experience onboarding suppliers both with and without assistance from Sedex: “A lot of the work comes on our end to ensure that we have our suppliers within the database. There’s two ways we do it: We connect with suppliers that are already set up within the Sedex program, and that’s honestly the easiest way. Then, we also encourage suppliers who we consider our key suppliers to join the Sedex program to go through the SAQ and to allow us access to that information. That’s a little bit of a lengthier process, especially if they’re not familiar with the program. I do still spend quite a bit of time working with my team so that they understand how to use the information. Then, I work with their suppliers to help them understand how we’re utilizing the information, how their [risk] scores are being affected, [etc.]. So we do a lot of calls with our supply base.”

Modeling and assumptions. Forrester assumes the following about the composite organization:

- The composite organization fully dedicates one FTE required for deployment and implementation.
- The deployment period is 40 weeks, or 1,600 hours.
- The sustainability supply chain manager dedicated to deployment and implementation has a fully burdened hourly rate of \$58.

Risks. Forrester recognizes that these results may not be representative of all experiences, and the cost will vary among organizations depending on the following factors:

- The number, expertise, and salary of FTEs managing the business segment’s sustainable supply chain.
- The amount of effort required to implement and deploy Sedex.

Results. To account for these risks, Forrester adjusted this cost upward by 15%, yielding a three-year, risk-adjusted total PV of \$106,000.

Implementation Effort						
Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
F1	FTEs required for implementation	Interviews	1.00	0	0	0
F2	Deployment time (weeks)	Interviews	40	0	0	0
F3	Deployment time (hours)	F2*40	1,600	0	0	0
F4	Sustainability supply chain manager fully burdened hourly rate	C5	\$58	\$58	\$58	\$58
Ft	Implementation effort	F1*F3*F4	\$92,800	\$0	\$0	\$0
	Risk adjustment	↑15%				
Ftr	Implementation effort (risk-adjusted)		\$106,720	\$0	\$0	\$0
Three-year total: \$106,720			Three-year present value: \$106,720			

TRAINING COSTS

Evidence and data. Interviewees described modest training costs with Sedex, which were influenced by the level of complexity in an organization's supply chain and the magnitude of emerging ESG regulations.

- The ESG manager in the manufacturing industry shared: "I followed the training on the platform to [learn] how to use it. It's necessary to get access to all the tools, especially the tool called Radar, which is very useful for us. I think I spent about a day and a half of training to follow the e-learning on Sedex to know how to use the platform."
- The senior sustainability manager in the food industry explained: "[Sedex] has a lot of really great training and resources [that take] a couple of hours [to go through]."
- The senior sustainability manager in the food industry described how Sedex provided appropriate training and resources to keep up with changing regulations. They noted, "Not only does Sedex have webinars and all kinds of information and resources available to members, but they also have more bespoke consulting offerings if you need it as an organization."

Modeling and assumptions. Forrester assumes the following about the composite organization:

- The composite organization dedicates a sustainability supply chain manager to be trained on Sedex.
- To keep up with dynamic market changes, the sustainability supply chain manager undergoes varying levels of training on Sedex throughout the three-year investment period: In the initial period, the manager undergoes 20 hours of training. They then undergo 10 hours of Sedex training in Year 1, 12 hours in Year 2, and 15 hours of Sedex training in total over three years.

- The sustainability supply chain manager has a fully burdened hourly rate of \$58.

Risks. Forrester recognizes that these results may not be representative of all experiences, and the cost will vary among organizations depending on the following factors:

- The number of Sedex users in an organization.
- The level of training needed to comply with changing regulations regarding sustainable supply chain reporting.
- The complexity and rate of change or regulations concerning a company's sustainable supply chain management. Certain industries may face more regulatory requirements.

Results. To account for these risks, Forrester adjusted this cost upward by 10%, yielding a three-year, risk-adjusted total PV of \$3,200.

Training Costs						
Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
G1	Number of Sedex users in organization	A1	1.00	1.00	1.00	1.00
G2	Sustainability supply chain manager fully burdened hourly rate	C5	\$58	\$58	\$58	\$58
G3	Hours of training	Interviews	20	10	12	15
Gt	Training costs	G1*G2*G3	\$1,160	\$580	\$696	\$870
	Risk adjustment	↑10%				
Gtr	Training costs (risk-adjusted)		\$1,276	\$638	\$766	\$957
Three-year total: \$3,637			Three-year present value: \$3,208			

ONGOING MANAGEMENT COSTS

Evidence and data. Interviewees described how ongoing management of the Sedex platform fits within their daily sustainable supply chain management activities.

- The ESG manager in the manufacturing industry explained, “It’s me and two other people, from time to time, [managing Sedex].”
- The procurement manager in the beverage industry noted: “I’m the primary interface with Sedex. So I go in, run the reports, [and] work with our account manager. We do have a few other people who have access to Sedex. It’s just a little bit easier [to] maneuver for most of my team. I review our suppliers, I do the accepting and rejecting of any type of relationship requests in there, and then I pull our reporting [...] on a quarterly basis. I summarize it for the team based on supplier base, and then I send that out. Probably about 40 people internally look at the reports they pull on a quarterly basis. I created my own template off of Sedex’s that helps me summarize the information. So now that they have a standardized reporting module, I can just pull the report as needed ... [and] we’re good to go.”
- The senior sustainability manager in the food industry shared how much Sedex has become embedded within their sustainable supply chain program: “It’s probably 50% to 75% of my current role in time. Sedex sits within a global human rights program, so [we] have human rights due diligence of [our] own organization, but then again of [our] supply chain. So it’s really coordinating across the board, the whole program from end to end. [Other people within our organization] utilize it for one site. So they’re not utilizing the breadth of Sedex that I’m using, but they’re using pieces of it.”

Modeling and assumptions. Forrester assumes the following about the composite organization:

- The composite organization dedicates a sustainability supply chain manager to manage Sedex.
- Twenty percent of the sustainability supply chain manager’s time, or 416 hours annually, is dedicated to managing Sedex.
- The sustainability supply chain manager has a fully burdened hourly rate of \$58.

Risks. Forrester recognizes that these results may not be representative of all experiences, and the cost will vary among organizations depending on the following factors:

- The number of Sedex administrators and users in an organization.
- The amount of time needed to manage Sedex.
- The complexity and rate of change or regulations concerning a company’s sustainable supply chain management. Certain industries may face more regulatory requirements.

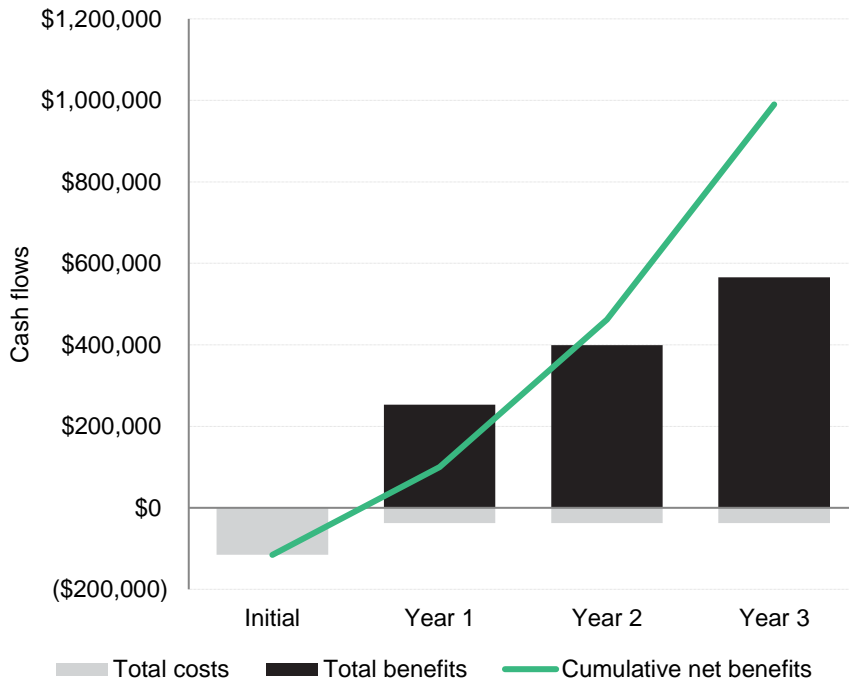
Results. To account for these risks, Forrester adjusted this cost upward by 10%, yielding a three-year, risk-adjusted total PV of \$66,000.

Ongoing Management Costs						
Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
H1	FTEs managing Sedex	A1	1.00	1.00	1.00	1.00
H2	Percentage of time spent on management	Interviews	0%	20%	20%	20%
H3	Annual hours spent on management	H2*2080	0	416	416	416
H4	Sustainability supply chain manager fully burdened hourly rate	C5	\$58	\$58	\$58	\$58
Ht	On-going management costs	H1*H3*H4	\$0	\$24,128	\$24,128	\$24,128
	Risk adjustment	↑10%				
Htr	On-going management costs (risk-adjusted)		\$0	\$26,541	\$26,541	\$26,541
Three-year total: \$76,002			Three-year present value: \$66,003			

Financial Summary

CONSOLIDATED THREE-YEAR RISK-ADJUSTED METRICS

Financial Analysis (risk-adjusted)



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

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

Cash Flow Analysis (Risk-Adjusted Estimates)

	Initial	Year 1	Year 2	Year 3	Total	Present Value
Total costs	(\$117,445)	(\$48,808)	(\$48,935)	(\$49,127)	(\$264,315)	(\$239,168)
Total benefits	\$0	\$253,320	\$399,260	\$565,600	\$1,218,180	\$985,201
Net benefits	(\$117,445)	\$204,512	\$350,325	\$516,473	\$953,865	\$746,033
ROI						312%
Payback period (months)						7.0

Appendix A: Total Economic Impact

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

TOTAL ECONOMIC IMPACT APPROACH

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

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

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

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

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



PRESENT VALUE (PV)

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



NET PRESENT VALUE (NPV)

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



RETURN ON INVESTMENT (ROI)

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



DISCOUNT RATE

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



PAYBACK PERIOD

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

Appendix B: Supplemental Material

Related Forrester Research

"The Green Market Revolution," Forrester Research, Inc., October 10, 2022

Appendix C: Endnotes

¹ Sources: "[Rethink Supply Chain Risk And Strategy In An Uncertain World](#)," Forrester Research, Inc., February 3, 2021; and "[The Future Of Supply Chain](#)," Forrester Research, Inc., April 11, 2023.

² 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.

³ Companies may have a number of one-off or infrequent suppliers that are not continually managed in a sustainable supply chain program.

⁴ Sources: "[Rethink Supply Chain Risk And Strategy In An Uncertain World](#)," Forrester Research, Inc., February 3, 2021; and "[The Future Of Supply Chain](#)," Forrester Research, Inc., April 11, 2023.

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