Forecast Analysis: Supply Chain Management Software, Worldwide

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By Analyst(s): Balaji Abbabatulla, Amarendra ., Neha Gupta

Initiatives: Technology Market Essentials

> SCM software spend will increase rapidly through 2025, driven by investments of SC leaders to modernize legacy software and traditional SC processes. This will lead to SCM software spend exceeding $31.8 billion through 2025 at a five-year CAGR of 14.3% (constant currency, base 2020).

Overview

Forecast Assumptions

- Investments in modernizing legacy supply chain processes will enable business leaders to improve agility and overcome unanticipated economic disruptions through 2025.
- Through 2025, most new supply chain management (SCM) software spend will be on extending capabilities to enable multienterprise supply chain network visibility, supply chain process orchestration, and decision making.
- Asia/Pacific and North America will lead the growth in SCM spend, driven by net new investments, and process modernization, respectively, through 2025.
- Through 2023, spend on SCM SaaS will exceed the spend on non-SaaS SCM software applications across all the SCM market segments.

Market Impacts

- The spend on SCM software will increase to $31.8 billion by 2025, double the $15.8 billion spent in 2020. The compound annual growth rate (CAGR) for the SCM market will be 14.3% in constant currency terms (base 2020).
- SCM SaaS spend will increase to $19.6 billion by 2025, more than three times the $6.3 billion spent in 2020. The CAGR for the SCM SaaS market will be 24.8% in constant currency terms (base 2020).
- The increase in the spend on SCM software will be led by the procurement market, which will grow at a CAGR of 16% in constant currency terms (base 2020). New investments to improve negotiated savings, mitigate supplier risk, and increase usage of existing capabilities to improve compliance and visibility will underpin this growth. The annual spend on procurement software will increase to $12.2 billion by 2025, up from $5.6 billion in 2020.
- SCM spend in Asia/Pacific and North America will grow faster than the spend in other geographic regions. The annual spend on SCM in North America will double, exceeding $16.2 billion by 2025, up from $8.1 billion in 2020.

Notable Changes

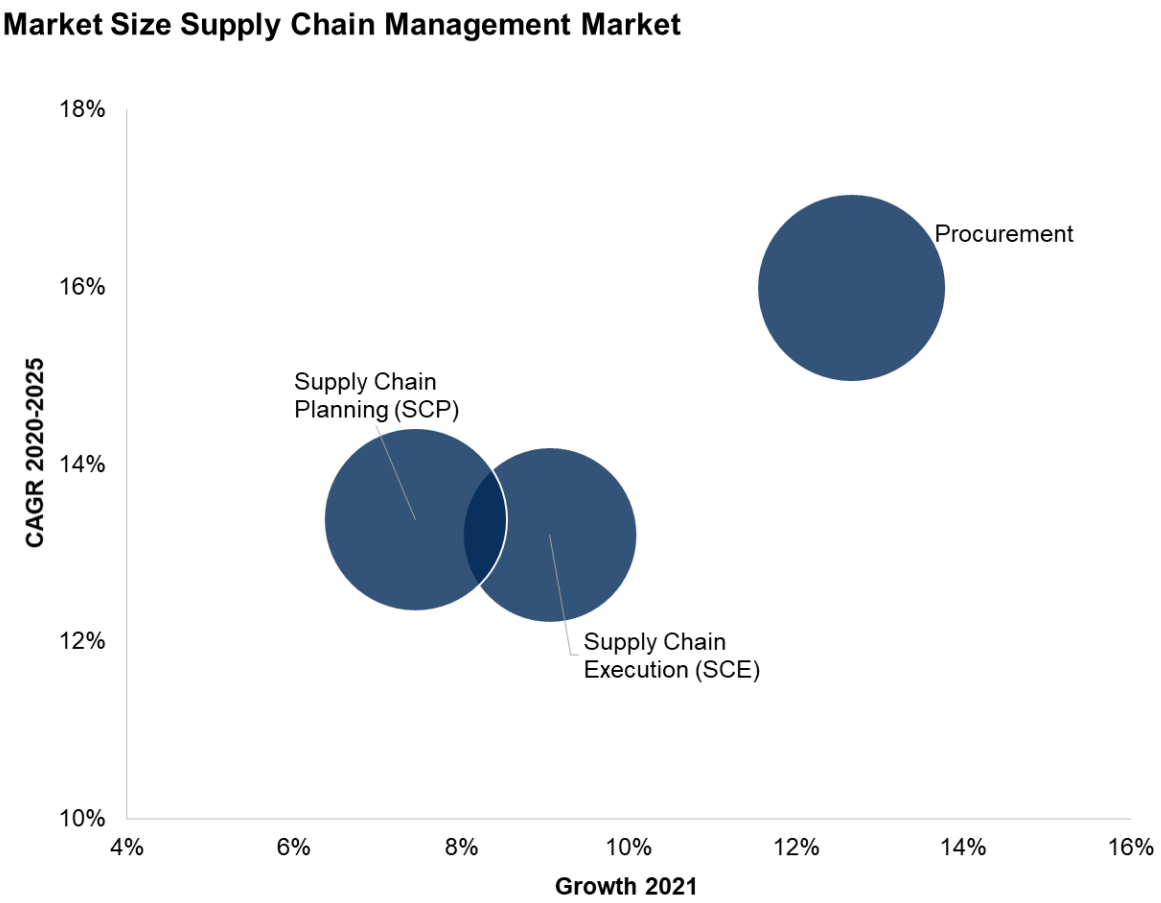
The key changes in the 2Q21 update compared to the 1Q21 forecast update include:

- Updated the 1Q21 forecast for 2020 to align with the findings of Market Share: Supply Chain Management Software, Worldwide, 2020. The new annual growth rate for 2020 was 5.19%, up from 1% in the 1Q21 forecast update. The spend in 2020 increased to $15.8 billion, up from the $15.3 billion forecast in the 1Q21 update.
- Increased the 1Q21 forecast to reflect a CAGR of 14.3% for 2020 through 2025, up from 12% in the 1Q21 forecast update. Consequently, the estimated SCM spend in 2025 increased to $31.8 billion, up from $28.2 billion in the 1Q21 update.

Forecast Data Summary

Figure 1 shows the annual spend and growth for SCM software market segments.

Figure 1. Annual Spend and Growth for SCM Software Market Segments



Note: The size of each bubble represents 2020 market size for SCM market subsegments in current U.S. dollars.
Source: Gartner (August 2021)
ID: 755650

Gartner

Table 1 shows the forecast annual spend on supply chain management software.

Table 1: Forecast Annual Spend on Supply Chain Management Software (2020-2025) (Millions of U.S. Dollars)

(Enlarged table in Appendix)

Market	2020	2021	2022	2023	2024	2025	CAGR (2020-2025)
Procurement (Millions of Dollars)	5,643	6,501	7,577	8,895	10,420	12,212	
AGR (Constant Currency)	8.73%	12.67%	16.19%	16.86%	17.06%	17.21%	16.0%
Supply Chain Execution (SCE) (Millions of Dollars)	4,867	5,427	6,180	7,067	8,092	9,321	
AGR (Constant Currency)	3.06%	9.06%	13.54%	13.86%	14.45%	15.20%	13.2%
Supply Chain Planning (SCP) (Millions of Dollars)	5,337	5,857	6,622	7,654	8,852	10,290	
AGR (Constant Currency)	4.28%	7.45%	12.71%	15.11%	15.59%	16.25%	13.4%
Supply Chain Management Total (Millions of Dollars)	15,847	17,786	20,379	23,616	27,364	31,823	
AGR (Constant Currency)	5.43%	9.80%	14.23%	15.38%	15.80%	16.30%	14.3%

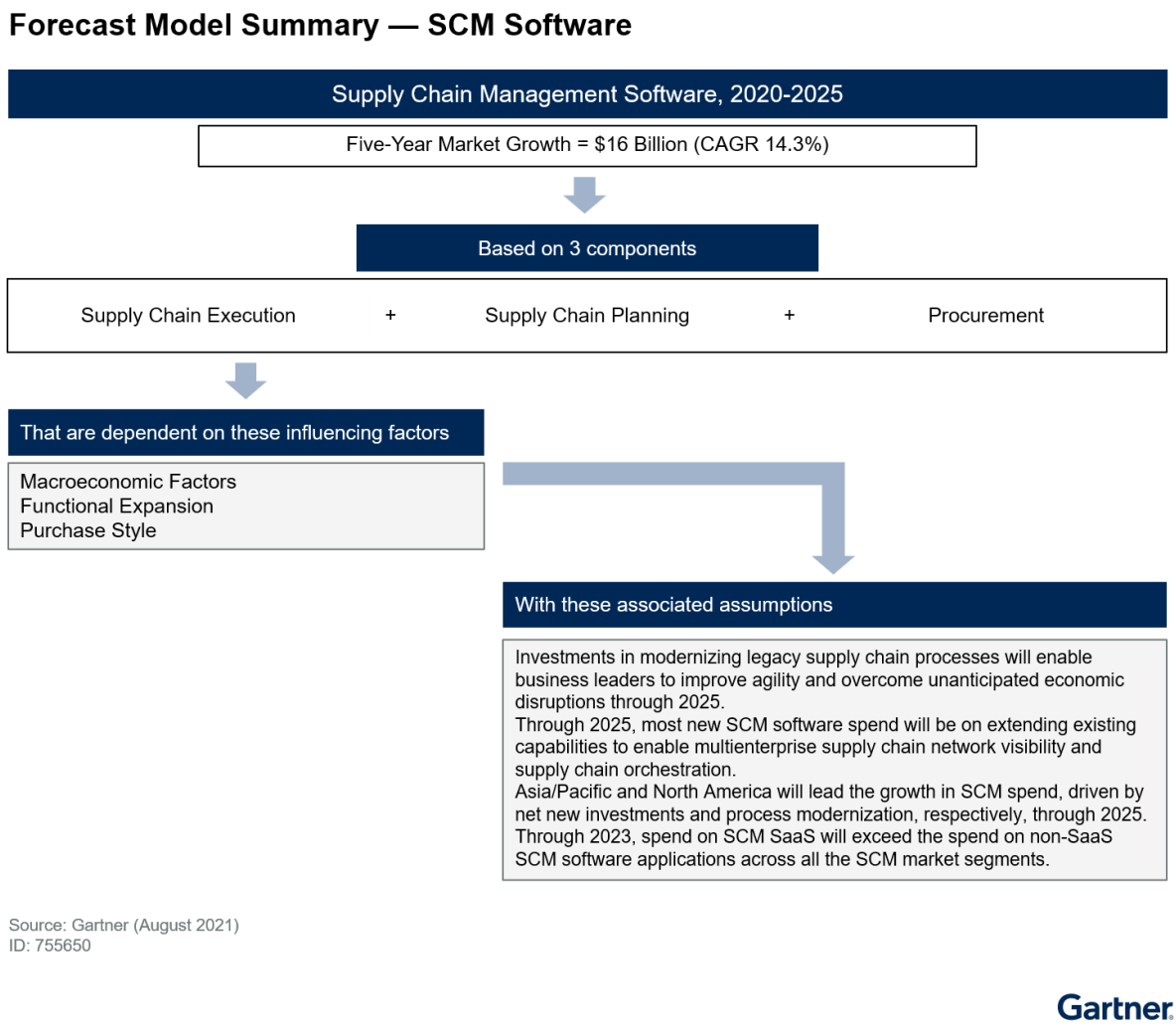
AGR = annual growth rate; CAGR = compound annual growth rate

Source: Gartner (August 2021)

Forecast Model Summary

Figure 2 summarizes the key components, influencing factors and forecast assumptions that drive the supply chain management software forecast.

Figure 2. Forecast Market Model Summary — SCM Software



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Gartner

Influencing Factors and Assumptions

Influencing Factor: Macroeconomic Factors

The stability and growth of the economy have a direct impact on the software spend in a market. The recent economic uncertainty has impacted various software markets in different ways. The spend on supply chain software exceeded previous forecast estimates through 2020. This was driven by new investments designed to overcome the immediate uncertainties caused by the economic instability. The impact of such macroeconomic factors will influence the future spend on SCM software.

Forecast Assumption: Investments in modernizing legacy supply chain processes will enable business leaders to improve agility and overcome unanticipated economic disruptions through 2025.

New — The recent economic slowdown, the uncertain business conditions that led to demand, and supply disruptions acted as a wake-up call to supply chain leaders. Supply chain leaders who reacted quickly by adding modern SCM applications were able to overcome such uncertainties better than others. This is leading to a broader change in traditional attitudes of supply chain leaders and expectations from SCM software. Quick impact on business outcomes and a higher prioritization of effectiveness over efficiency of functional supply chain processes are becoming the new supply chain software investment priorities.

As supply chain leaders realize the benefits of using modern SCM applications to address specific business challenges, the priorities will shift to modernizing foundational supply chain processes. The objective of such process modernization will be to define and drive holistic business goals such as enhanced customer experience. Supply chain orchestration will expand beyond the supply chain to include adjacent business processes, such as sales and finance, and across multiple enterprises. This will result in supply chain leaders defining and driving holistic business goals instead of fulfilling predefined business outcomes.

Such shifts in SCM software investment priorities that are driven by macroeconomic factors will lead to increased spend on SCM software over the next couple of years. Modernization of foundational, legacy supply chain processes will further accelerate spend on SCM software during the outer years of the forecast period.

> **Influencing Factor: Functional Expansion**
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> Incremental spend by existing customers on new functional capabilities is classified as functional expansion. Increasing spend due to higher adoption of existing capabilities by new users, and user groups contributes to such functional expansion. Functional expansion is one of the key factors influencing incremental spend in highly saturated markets such as supply chain management.

Forecast Assumption: Through 2025, most new SCM software spend will be on extending existing capabilities to enable multienterprise supply chain network visibility and supply chain orchestration.

New — Supply chain software is a highly saturated market characterized by very few "greenfield" SCM software investments. Most new deals are either replacement or extension of existing SCM capabilities. Supply chain leaders are more likely to extend existing, legacy SCM software applications than entirely replace such applications. Replacing legacy on-premises applications and processes requires easy integration of the new applications with existing applications. Such replacements should significantly improve the user experience without requiring extensive change management. Furthermore, such replacement solutions should deliver much wider and quicker business impact than the existing software applications. This requires much deeper capabilities to enable collaboration across supply chain processes, adjacent business processes within an enterprise, and across multiple enterprises.

Higher prioritization of effectiveness over efficiency and greater emphasis on business impact are resulting in more new deals to extend existing SCM capabilities.

Forecast Assumption: Asia/Pacific and North America will lead the growth in SCM spend, driven by net new investments and process modernization, respectively, through 2025.

New — Net new investments in Asia/Pacific will continue to drive incremental spend on SCM software through 2025, leading to a five-year CAGR of 15.1%. Supply chain visibility, multienterprise supply chain networks, and digitization of freight networks will be the key market segments that will drive growth in this geographic region. Increasing maturity of emerging technologies, such as Internet of Things (IoT), and early adoption of new technologies, such as blockchain, will encourage investments in new technologies. Upcoming government regulations to mandate e-invoicing in mature economies, such as Australia and Singapore, will act as a catalyst for digital business initiatives in this region. Collaboration among procurement and supply chain finance vendors will lead to quicker and easier digital payments to suppliers, thereby accelerating adoption of digital procurement solutions.

Modernization of existing software applications will drive incremental spend on SCM software through 2025, leading to a five-year CAGR of 14.7%. North America accounts for a greater than 50% share of the global spend on SCM software. Changing buying behavior toward software investments in general, and SCM software in particular will lead to gradual increase in SCM software modernization. Incumbent software vendors, especially large suite vendors who have strong SaaS capabilities will be the key beneficiaries of this growth trend. Such vendors should enable visibility, and control of SCM SaaS spend to help supply chain leaders monitor and control the total cost of ownership. Furthermore, delivering new and innovative capabilities quickly through product ecosystem partnerships will enable such vendors to win more modernization deals. SCM vendors that adopt a composable business architecture will be well-positioned to win long-term business transformation deals. Such an architecture will enable vendors to collaboratively generate new solutions to impact business outcomes that may not even be clearly defined yet.

> **Influencing Factor: Purchase Style**
>
> The impact of a purchase style on the forecast software spend varies due to the different commercial models and revenue recognition principles associated with a purchasing style. The recurring, low, upfront cost-based commercial structure of SaaS leads to a smoother annual growth rate over time. On-premises software is associated with a one-time, upfront license fee leading to higher variability in annual growth rates.

Forecast Assumption: Through 2023, spend on SCM SaaS will exceed the spend on non-SaaS SCM software applications across all the SCM market segments.

New — The preference for SaaS is driven by a realization that most existing SCM software applications are outdated. SaaS offers supply chain leaders an opportunity to modernize some parts of their legacy software at a lower upfront cost. Higher investments in SCM software applications that can quickly impact specific business outcomes have resulted in faster annual growth rate for SaaS software through 2020. SaaS is the preferred option for most new SCM software deals. The preference for higher investments in SaaS SCM software will continue over the next five years.

The higher share of SaaS will lead to a smoother and more predictable annual growth in the spend on SCM software. Supply chain leaders will begin to realize the benefits of deploying SCM SaaS beyond the low initial spend, and start getting a better sense of the total cost of ownership. Despite the concerns about the lack of control on frequency of upgrades or the supporting IT infrastructure, SCM leaders will continue to invest in SaaS. This will result in a smooth acceleration of the annual growth in SCM software spend over the next five years.

Document Revision History

Forecast Analysis: Supply Chain Management Software, 2Q20 Update - 14 August 2020

Forecast Overview: Supply Chain Management, Worldwide, 2018 Update - 5 December 2018

Forecast Overview: Supply Chain Management, Worldwide, 2016 Update - 8 February 2017

Forecast Overview: Supply Chain Management, Worldwide, 2015 Update - 2 November 2015

Forecast Overview: Supply Chain Management, Worldwide, 2014 Update - 6 August 2014

Forecast Analysis: Supply Chain Management Software, Worldwide, 1Q14 Update - 20 June 2014

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Quick Answer: What Is the Share of SaaS in the SCM Software Market?

Forecast: Enterprise Application Software, Worldwide, 2019-2025, 2Q21 Update

Supply Chain Management Software Market Overview, 2021

Table 1: Forecast Annual Spend on Supply Chain Management Software (2020-2025) (Millions of U.S. Dollars)

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