THE STATE OF THE SCM MARKET: 2018

NUCLEUS RESEARCH

ANALYST

Seth Lippincott

THE BOTTOM LINE

In 2017, the supply chain management software market continued to shift, as vendors focused on increasing the reach of their platforms. Nucleus predicts that additional consolidations and improved returns on automation will be themes in 2018. In five years' time, customer's will realize the highest value from vendors that offer multi-enterprise collaboration and end-to-end capabilities.

•••

OVERVIEW

In 2017, the supply chain management (SCM) software market saw many vendors adding adjacent modules—either organically or through acquisition—to deliver more value to customers. In 2018, the supply chain end users will continue to be dragged into a digital future. Though many end users are happy to rely on archaic and manual processes, supply chain vendors are pushing the market forward with greater reliance on inter-company collaboration and automation.

Though supply chain managers do not have to worry about being replaced by a machine in the immediate future, letting go of control over their precious data is a must, in order for rules-based automation, along with a sprinkling of machine learning, to deliver value. For many organizations, the efficiencies they can realize from implementing some level of automation their planning and operations will become more than a nice-to-have but rather a business imperative.

WHAT WAS INTERESTING IN 2017

S&OP GETS A REFRESH

Several vendors renewed their focus on sales and operations planning (S&OP), developing solutions designed to replace processes that are traditionally manual labor-intensive and spreadsheet-driven. Though nothing new for businesses, S&OP is undergoing a transformation enabled by modern SCM solutions that remove operational silos and provide robust scenario planning engines that facilitate more productive meetings and better interdepartmental collaboration. Solutions with capabilities such as a single data model, that reflect the impact of proposed changes immediately and cascade the effects down to the financial key performance indicators (KPIs), help planners determine the best way to optimize their path forward (Nucleus Research, *s3 – How supply chain S&OP solutions drive value*, January 2018). As with other modules, S&OP solutions deliver better value when they are used in conjunction with other pieces of supply chain software, encouraging customers to expand their deployments to adjacent capabilities offered by vendors.

FOCUS ON PLATFORM PLAYS

In response to end-customer needs, many vendors focused their energy on becoming a one-stop-shop, offering end-to-end capabilities from planning through to execution. Visibility upstream and downstream into multiple tiers of trading partners, suppliers, and buyers is facilitated by an integrated system that adapts to changes at any stage of the value chain (Nucleus Research, *r199 – Control Tower Technology Value Matrix*, November 2017). Cloud deployments give vendors the flexibility to deliver services on top of modular applications, ensuring that data is consistent across the applications, and planning and execution are linked. Nucleus has found customers are able to achieve better value by deploying applications on integrated platforms rather than point solutions customers must integrate themselves.

E2OPEN BUYS STEELWEDGE AND ZYME

E2open had a busy 2017, acquiring S&OP best-of-breed Steelwedge in February and channel data management vendor, Zyme, in November (Nucleus Research, *r42 – E2open merges with Steelwedge*, February 2017). The vendor also debuted a new user interface, Harmony, which ties together the point solutions it has accumulated over the last few years on its application platform. From Orchestro for point of sale data analytics to Terra Technology for demand sensing, E2open has been expanding the reach of its solution downstream so customers can leverage the insights and improve the accuracy of their planning (Nucleus Research, *q41 – E2open acquires Terra Technology*, March 2016). Operating on a multi-enterprise network, E2open

customers can collaborate with trading partners, suppliers, and customers to better coordinate planning and operations (Nucleus Research, *r63 – The real value of value chain networks*, April 2017). Adding an S&OP solution helps customers further improve their planning processes. The channel data management acquisition is designed to collect sell-through and inventory data from channel partners to give customers visibility across their distributors and resellers.

The vendor is responding to the desire of customers to buy into a technology platform that can service their needs for the next decade. Customers typically start with a single module to address a pain point and then add additional capabilities in a piecemeal fashion, eventually operating end-to-end on the vendor's platform. Though integrating the disparate solutions that the vendor has acquired will still require significant work, new user interface and cloud-based architecture will help the vendor deliver a consistent experience across all its modules.

WHAT TO LOOK FOR IN 2018

MARKET CONSOLIDATION WILL CONTINUE

The number of modestly-sized vendors are caught in a growth paradox makes the SCM software market ripe for additional consolidations. These vendors serve a particular market segment or own intellectual property that delivers excellent value to their customers but they are not able to invest enough to keep pace with the market or outgrow their competition. Without sufficient capital to maintain investment levels, vendors will look to outside sources of capital through merger or acquisition. The rate at which consolidations have occurred over the past several years shows no signs of slowing down as many vendors who were born in the cloud have open application programming interface (API) architecture that makes integrating them onto existing platforms easier and less costly, eliminating a significant barrier to acquisition.

ANALYTICS DIFFERENTIATE VENDORS

Unlike the enterprise applications market where they are a nice-to-have feature, in the supply chain space, applying the right analytics can mean a more accurate demand forecast which results in less excess inventory and cost savings. This is especially true for solutions that focus on inventory optimization, where reducing forecast error is a primary driver of limiting safety stock. As a result, solutions that have the forecasting method to best address their customers' business models can easily quantify the benefits their customers realize. In 2018, vendors will need to demonstrate how their analytics capabilities deliver value to their customers, with more showing and less telling.

THE RETURNS ON AUTOMATION ACCELERATE

Supply chain software vendors vary widely in the level of automation their solutions allow their customers to implement. Ensuring a flag is raised every time business rules are violated—such as an issue in service level—is table stakes at this point. Vendors are deploying supply chain solutions that can self-heal, taking corrective action after evaluating the options available to rectify an issue based on analysis of historical outcomes. For example, when establishing a replenishment schedule, without any human intervention, the solution can analyze point-of-sale data to determine what stock keeping units are at the greatest risk of stocking out and evaluating available supplies from trading partners to minimize cost. No longer exclusively in proof-of-concept stages, in 2018 more customers will start to realize the value of automating these processes can deliver.

LOOKING AHEAD TO 2023

MULTI-ENTERPRISE COLLABORATION WINS

With so much data relevant to an enterprise's success residing outside its four walls, ensuring that its supply chain management software is able to read and analyze information from upstream and downstream will be essential. In many industries, manual management processes and siloed data are already untenable. By 2023, enterprises networked with their trading partners and suppliers will be better positioned to realize value from their supply chain software. Better able to adapt to changing circumstances and unforeseen issues, multi-enterprise collaboration networks will be a crucial differentiator for those that subscribe to them.

ONE-STOP-SHOP VENDORS PROVE THEIR WORTH

As a continuation of what single platforms are looking to provide, by 2023, the value realized by customers from vendors offering end-to-end solutions will prove to be superior to that of customers with a host of cobbled-together point solutions. Rather than moving data from one system to another, integrated end-to-end solutions allow information to flow from one application to another as the user performs his or her tasks. By natively connecting planning with execution all the way to the store shelves and feeding data back through the system as the situation changes, integrated business planning is simpler and more effective when the system is delivered on a single platform and operates on the same underlying technology.

CONCLUSION

Vendors in the supply chain management software market are experiencing growing pains from adapting or remaking their solutions to work in the cloud or, for born-in-the-cloud solutions, seeking to unseat legacy deployments. Those that are unable to differentiate with value delivered by their analytics and automation capabilities risk being absorbed by larger vendors. In the longer term, the benefits of end-to-end integrated platforms delivered by a single vendor will prove to be hard to match for customers that opt for a host of disparate systems to manage supply chains of growing complexity and decentralization.