

EXCERPT FROM AGL SUPPLY CHAIN MARKET STUDY

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Commissioned by American Global Logistics | Delivered by Logistics Trends & Insights, LLC

# SUPPLY CHAIN TECHNOLOGY INVESTMENT OUTLOOK

**Total logistics  
IT spending will  
rise to \$87.8  
billion by 2022.**

# SUPPLY CHAIN IN THE MODERN AGE

Every five days, a new digital logistics startup is born. As they work to help organizations navigate an increasingly complex supply chain landscape, these startups generally fall into one of five major clusters:



Online Platforms



Asset Management



Robotics /  
Autonomous Vehicles



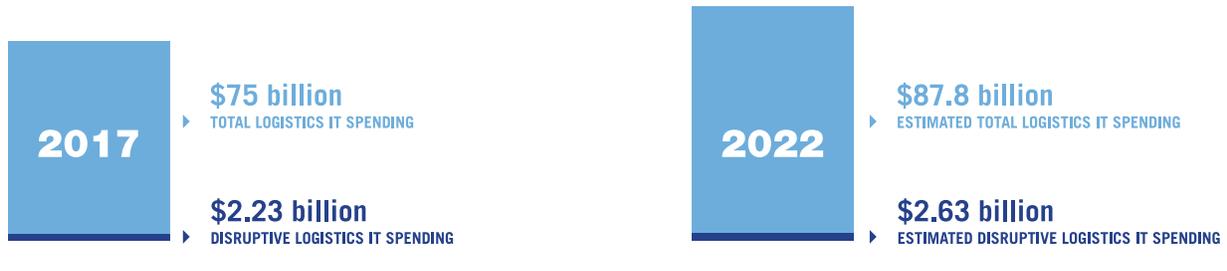
Shipping Execution  
and Tracking



Data Analytics

For entrepreneurs, the supply chain market has been a gold mine. In an industry with a reputation for being outdated, inefficient and paper-driven, investors are practically throwing money at companies promising to help transition the industry into the modern age. In a research initiative with Logistics Trends & Insights, AGL explores the rapid growth in supply chain IT investment and which technologies are likely to take the lead in the next five years.

## Supply Chain Tech Investments Are on the Rise



Based on CSCMP’s annual State of the Logistics Market study, AGL estimates that organizations spent \$75 billion on logistics IT in 2017. By 2022, that spending will jump 17 percent or to \$87.8 billion.

As supply chain startups continue to develop innovative tools to serve customers, that innovation is fueled by the venture capital that continues to pour into the sector. Between 2012 and 2017, CB Insights estimates, supply chain and logistics technology firms received more than \$8.4 billion in investments. A Crunchbase and IHS Markit analysis shows that the average total venture capital investment was about \$17 million.

Many of these investments are in tools that didn’t exist during previous investment cycles. In particular, startups are focusing on applications that sit atop or alongside established enterprise software, whether it’s AI, blockchain or machine learning tools.

Leveraging CB Insights data, we conservatively assume that disruptive technologies like AI and blockchain make up at least 3 percent of 2017’s \$75 billion total logistics IT spend. As a result, our research shows that organizations spent \$2.23 billion on disruptive logistics IT in 2017. That figure will rise to \$2.63 billion by 2022 if that 3 percent figure remains constant – and current investment trends suggest it could rise significantly higher.

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Since the last major supply chain investment cycle, technologies like artificial intelligence, connected devices, sensors, cloud computing, cybersecurity and distributed systems are transforming the technology landscape. The next wave of supply chain innovation will focus on weaving these technologies together to make global supply chains more efficient, more resilient, more transparent, and less costly. While figuring that out will take time, I think this is the most promising investment opportunity of the next two to three decades.

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Jon Slangerup, Chairman and CEO, American Global Logistics

## The Biggest Supply Chain Investments Aren't Always the Sexiest

From AI-enabled platforms to planning and execution tools, the newest supply chain technologies are as varied as the organizations that use them. In the ocean freight market, many carriers are investing in technologies to support visibility and responsiveness amid chronic overcapacity concerns. In an interview with the Journal of Commerce, Constitution Capital noted that visibility tools and “non-sexy” solutions, such as manifests and customs tech, are capturing a significant chunk of total investments in the ocean space. Other tech providers are repackaging supply chain tools with more user-friendly features and support.

As the number of technology solutions continues to multiply, competition is intensifying among providers looking to capture their share of the supply chain market. In the end, supply chain customers stand to benefit the most from a rich array of innovative tools designed to help optimize every aspect of supply chain activity.

### Methodology

#### 2017 Figures

2017 U.S. logistics costs were estimated at \$1.5 trillion, a 6.2 percent increase over 2016 (State of the Logistics Market – CSCMP). This increase is attributed to the rise in e-commerce; tight capacity in various transportation modes, as well as warehouse space closer to customers; and a healthy U.S. economy.

According to estimates from Gartner and other research firms, IT spending as a percentage of revenue can average from 2 percent to 8 percent, depending on company size. We averaged these percentages to assume a 5 percent IT spend.<sup>1</sup> By taking 5 percent of \$1.5 trillion, we estimate \$75 billion in total logistics IT spending for 2017.

CB Insights estimates that \$8.4 billion was invested in supply chain and logistics technology companies from 2012 to 2016 (\$2.1 billion per year). Assuming a 6.2 percent increase in investment in supply chain and logistics technology companies, that figure increases to \$2.23 billion for 2017. As a result, we can conservatively assume that disruptive logistics technology represents at least 3 percent of the \$75 billion in total logistics IT spending for 2017.

#### 5-Year Outlook

According to CSCMP's State of the Logistics Market report, U.S. logistics costs have increased at a five-year compound annual growth rate (CAGR) of 3.2 percent. Projecting this same five-year CAGR, the estimated \$75 billion in total logistics IT spending in 2017 increases to \$87.8 billion in 2022. In addition, the estimated \$2.23 billion in disruptive logistics technology spending in 2017 will rise to \$2.63 billion in 2022 (still assuming this figure represents 3 percent of total logistics IT spending). It's important to note, however, that technologies considered disruptive today may no longer be disruptive in 2022, which means those investments will be part of total logistics IT spending instead.

<sup>1</sup> XPO Logistics announced it would invest \$450 million in IT during 2018, representing 3 percent of total 2017 revenue. Larger companies, such as XPO, tend to invest a lower percentage of revenue in IT compared with smaller companies, which invest a larger percentage on average.

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