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Startup funding in logistics

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A new report looks at the impact of new money in an old industry—and what it means for incumbents, startups, and investors.

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Full Report (PDF-940KB)

The transport and logistics sector has seen marked improvements in recent decades. As new technologies have entered the market, efficiency has increased and prices have decreased. Yet the industry continues to face significant challenges, including a high number of breakpoints, complex pricing rules, and a lack of data standardization.

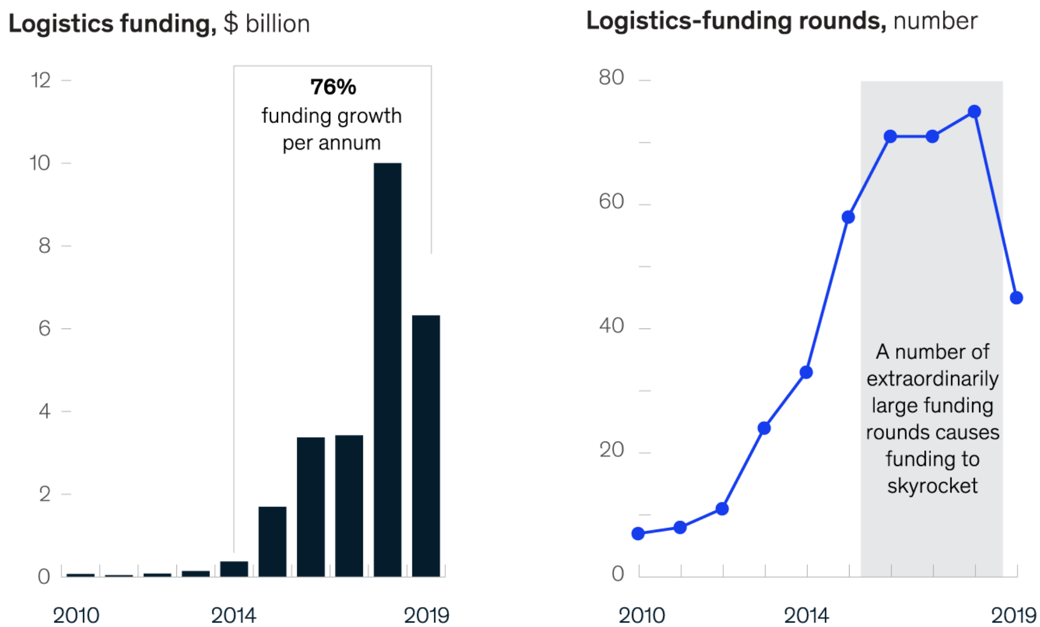
While low profitability has made it difficult for the industry to address these issues, a new generation of logistics startups aims to solve them. In our new report, *Startup funding in logistics: New money for an old industry?*, we analyze more than 120 of the biggest logistics startups—representing an estimated 93 percent, or $26 billion, of total startup funding in logistics to date—and explore recent funding trends and their implications for incumbents, startups, and investors. The remainder of this article teases out lessons from one chapter of the report. For more information on more recent developments, see the sidebar "The impact of COVID-19 on logistics startups and venture-capital funding."

Venture capital discovered the logistics industry in 2015

Venture capitalists (VCs) have recently invested around $28 billion in logistics startups, nearly all of it since 2015. In our sample, the number of reported deals was stagnant from 2016 to 2018 then dropped in 2019. Over the same period, the average deal size and total funding grew threefold (Exhibit 1). These findings show that growth is no longer fueled by having multiple funding rounds; instead, it occurs as startups reach maturity and receive larger funding rounds.

Exhibit 1

Total funding in logistics startups has seen a dramatic increase over the past few years, growing at a 76 percent compound annual growth rate since 2014.



Source: CB Insights; company websites; Crunchbase

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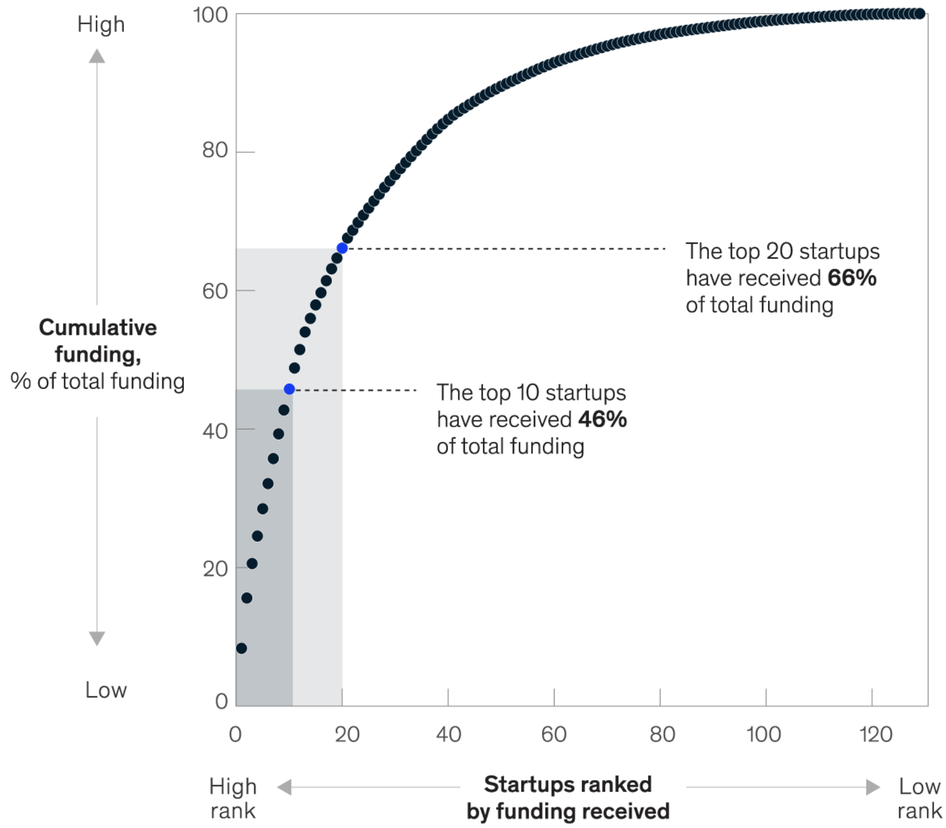
As in other industries, logistics funding is highly concentrated. The ten best-funded companies have received about 46 percent of total funding, and the top 20 about 66 percent (Exhibit 2).

Exhibit 2

The ten best-funded startups account for 46 percent of total funding.

Startup ranking by cumulative funding



Source: Crunchbase

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Most funding goes to startups working on last-mile and freight platforms

This significant rise in funding begs the question: Where does all this money go, and what are the trends getting investors excited about this industry?

Last mile: Venture capital's favorite

Most funding, around $11.1 billion, was raised by startups offering last-mile delivery services to retailers and individuals—a VC bet that we analyzed in detail in 2017.[1] Of this amount, $9.9 billion went to startups that rely on unconventional delivery modes, such as crowdsourced delivery, drones, autonomous vehicles, and shipments to parcel lockers. This trend suggests that investors see an opportunity for unconventional last-mile services to complement companies with traditional delivery fleets as they anticipate the next normal in last-mile parcel delivery.

One unconventional startup is Nuro, which designs, manufactures, and operates delivery robots. Its R1 driverless delivery vehicles are being piloted in Houston, Texas, and Scottsdale, Arizona, through a partnership with Kroger to deliver groceries for a fee. The California-based company's Series B venture round brought in $940 million in February 2019 and was led by SoftBank's Vision Fund.[2]

Another unconventional player, the Shenzhen-based Hive Box, was established in 2015 and now operates more than 150,000 parcel lockers located across China. Together, these receive more than nine million parcels per day. Five express companies, including SF Express, have a stake in Hive Box. The company raised $323 million in a Series B round in January 2018 and to date has received more than $700 million in funding.

The freight platform market: Startups pushing forward, incumbents catching up

Freight platforms have also captured investor attention. This holds especially true for platforms that focus primarily on road transportation, which have received about $6 billion in funding. While the vast majority of this sum comes from investment funds, this segment has also seen the most corporate funding. For example, DB Schenker acquired a $25 million stake in the road-freight booking platform uShip.

Road-freight platforms enhance pricing transparency, professionalize, and digitize the often informally handled shipper–carrier exchange. They focus on leveraging existing data as a means to address vast inefficiencies that still exist in the market (for instance, those caused by empty runs). Thus, these startups significantly contribute to improving sustainability within the transport and logistics industries, a trend that is becoming increasingly relevant. They are extremely easy for truckers and others to use, which improves the customer experience.

While road-freight marketplaces and solutions have yet to capture large volumes, they have challenged asset-light brokers and freight forwarders by matching shippers, loads, and carriers directly, thus threatening to replace traditional intermediaries. Some incumbent players have already reacted to the emergence of road-freight startups. For instance, DHL Freight launched the online marketplace Saloodo in 2016, and Kuehne + Nagel launched FreightNet, a road-freight booking platform, in 2014.

Freight platforms that focus on air and ocean transport have raised far less than their road transportation peers—about $1.6 billion. Flexport, with its strong offering and prominent customer base, clearly dominates this segment and accounts for $1.3 billion of this funding. Flexport recently announced a partnership with Chinese delivery and logistics company SF Express to provide complete freight services, including full container-load ocean shipping and air cargo.

Incumbents have also reacted in this segment. For instance, Maersk launched its own digital forwarder, Twill, in April 2017. The digital shipping platform initially focused on shipments between China and the United Kingdom, but quickly expanded and managed to reach 27 countries by the end of 2018.

Asia–Pacific: Successful new entrants with traditional business models

Outside of mainland China, Asia has a high concentration of very well-funded logistics startups, especially in Hong Kong, India, and Singapore. Last-mile startups entering the market with more traditional modes (such as scooters, vans, and trucks) are most successful in the Asia–Pacific region, especially in India, where players, such as Delhivery and Xpressbees, have built a completely new parcel network and collected hundreds of millions in funding within a few years. These developments show that the traditional parcel players' offerings have not sufficiently addressed these markets.

Incumbents: Here to stay?

Although logistics incumbents are not going anywhere, the question remains: How disruptive will these startups turn out to be? The good news for the traditional logistics providers is that the network, assets, and relationships of incumbents are not going to be disrupted over the short term, at least not in their major markets. Currently, no new entrant has enough control over its network to ensure globally integrated, seamless transportation on behalf of a large shipper—a capability that Kuehne + Nagel or DHL Global Forwarding consider their domain.

At the same time, startups have conquered markets where incumbents had a weak offering. To prevent new entrants from capturing the second wave of growth segments and keep other customers from insourcing, incumbents must review their global presence and customer satisfaction across service segments. They should also focus on new customer requirements, such as increased sustainability, and map these within the most promising growth segments.

Overarching partnerships will be increasingly important to succeed in the future, especially since processes in the industry are so intertwined. Connecting startups with incumbents can unlock substantial opportunities for all stakeholders. Incumbents have the opportunity to learn from young companies and deploy digital capabilities to link their physical network with customers; startups get to improve their credibility and brand awareness, as well as gain access to customers. Incumbents can benefit by learning how to become more agile, getting new ideas, and helping their brand be perceived as dynamic and digital.

Our full report explores geographic investment trends and niches in which logistics startups are gaining momentum. The insights will help incumbents, startups, and investors embark on a successful path forward through 2030.

Download Startup funding in logistics: New money for an old industry?, *the full report on which this article is based (PDF–860KB).*

For more on why the use of AI in logistics works best with human expertise, read the guest commentary by Michael Wax, chief commercial officer and cofounder of Forto.

1. Florian Bauer, Tim Ecker, Ludwig Hausmann, Jan Krause, and Thomas Netzer, *The urban delivery bet: USD 5 billion in venture capital at risk?*, McKinsey & Company, May 2017.
2. Andrew J. Hawkins, "Nuro's robot delivery cars are coming to Houston, Texas," The Verge, March 14, 2019, theverge.com.

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