FREIGHT.TECH is a startup and innovation-stage engagement platform that connects early stage startups with investors and large corporate enterprises to help them accelerate their business plans. Freight.Tech draws on the resources of the FreightWaves Community, with deep domain expertise in transportation and logistics, to help startups achieve their goals.
INTRODUCTION

If 2018’s Inc. 5000 list tells us anything, it’s not only transportation and logistics that’s seen explosive growth over the past year, it’s virtually any young company that’s setting itself apart with a single-factor ingredient: technology.

Among those 5000 companies, 162 come from logistics and transportation, who over the past four years in particular have realized the transformative power of technology from vertical to vertical.

Among the top 10 from that list, three come from logistics and transportation, including the prestigious number one spot belonging to Swap Leap.

Beginning in the 1980s, and especially in the ten years since the Great Recession, the country’s massive conglomerates have been forced to operate leaner and meaner.

Over that same time period since the deregulation of trucking, the logistics industry realized efficiencies and removed substantial costs and friction from the supply chain. In the past five years, TransportTech has emerged as a stand-alone field of its own.

When it comes to initiating and running a startup, funding is top in founders’ minds. Over half of all inquiries to FreightTech—FreightWaves’ innovation engagement platform—come from startups seeking institutional funding. While there are many crucial considerations to be made from the start, it’s no surprise that funding is top of mind. After all, in many respects it’s the lifeblood of an organization’s ability to achieve optimal results in a competitive industry in which margins are often tight.

But should it be?
WE NEVER CONCERNED OURSELVES WITH FUNDING, WE FOCUSED ON BUILDING THE TEAM THAT WOULD OBSESS OVER THE CUSTOMER. WE RECENTLY CLOSED SERIES C. EACH ROUND IS UNIQUE. GROWING A HYPERGROWTH BUSINESS IS LIKE SLALOM SKIING, YOU HAVE TO CLEAR GATES TO CONTINUE DOWN THE HILL.

OTHER DIFFERENCES ARE THE TYPES OF INVESTORS AND WHAT THEY’RE MEASURING, LIKE UNIT ECONOMICS, TEAM, ETC. AT SERIES A, A BUSINESS IS ABOUT TAM (TOTAL ADDRESSABLE MARKET), ECONOMIC MOAT, AND VISION. SERIES C IS ABOUT UNIT ECONOMICS, LACK OF CUSTOMER CHURN, TEAM, AND STRONG PRODUCT MARKET FIT.

-JETT MCCANDLESS, CEO OF PROJECT44
The winnowing process from Seed to Series A and B is fierce, though, and as the number of deals shrinks the size of investors’ bets increases.

As the marketplace evolved, capital shifted to later stage rounds. The average TransportTech Series B round grew 78% from 2014 to 2017, from $24.5M to $43.6M. Overall investment in Series C rounds grew from $123.9M spread across three deals in 2016, the first year we have a disclosed Series C, to $399.6M spread across six deals in 2018 year-to-date. The growing emphasis on later stage startups reveals the maturation of the TransportTech marketplace during the past five years.

The most important statistic in the study is that 2018’s venture investment through the end of the third quarter was larger than all previous years combined, and more than double the 2017 record of $1.4B. The Softbank Vision Fund’s entry into the space helped push 2018’s numbers through the roof as it led the Manbang Group’s $1.9B round, which closed in April. Manbang is essentially the Chinese Uber Freight. In the United States, Convoy’s $185M Series C raised the digital freight exchange to a unicorn valuation. capitalG—formerly Google Capital—participated in both Manbang and Convoy’s rounds.
TRANSPORT TECH RISING: THIS VARIES DEPENDING ON THE STAGE OF THE COMPANY. FOR SEED AND SERIES A COMPANIES, THE TEAM IS A MAJOR FACTOR. AS COMPANIES GROW AND GET PRODUCT MARKET FIT, WE RELY MUCH MORE ON METRICS.

EVERY STARTUP NEEDS AN EXCEPTIONAL TEAM—ENTREPRENEURS SHOULD PRIORITIZE BUILDING AN EXPERIENCED TEAM WITH STRONG BACKGROUNDS IN THE SPACE. THE LOGISTICS AND TRANSPORTATION INDUSTRY IS VERY COMPLEX, SO IT’S IMPORTANT TO UNDERSTAND THE PROBLEM YOU ARE SOLVING BETTER THAN ANYBODY ELSE. HAVING THE RIGHT MIX OF TALENT IN PLACE FROM THE BEGINNING WILL GIVE YOU THE STRONGEST ADVANTAGE. CAPITAL WILL FOLLOW TALENT. MEDWELL ADDED.

IT’S CRITICAL TO HAVE A CLEAR FOCUS WITHIN LOGISTICS AND TRANSPORTATION AND YOU NEED TO DEEPLY UNDERSTAND THE SIZE OF THE MARKET YOU’RE GOING AFTER. I OFTEN SEE ENTREPRENEURS MISINTERPRETING OR OVERSELLING OPPORTUNITY SIZE. WHEN AN ENTREPRENEUR ISN’T DISSECTING THE MARKET OPPORTUNITY CORRECTLY, IT’S A DEAD GIVEAWAY THAT THEY DON’T HAVE THE RIGHT FOUNDATION TO BUILD A WINNING COMPANY IN THE SPACE, MEDWELL EXPLAINED.

From a narrative perspective, the TransportTech sector was in its infancy in 2014, and that showed in the distribution of funding: out of a total of 56 deals, eleven were Angel rounds, 32 were Seed rounds, and six were Series A. In 2014, there were only two Series B rounds and no Series C or D rounds. Just a year later, in 2015, the number of deals had risen to 108, mostly concentrated in 13 Angel rounds, 57 Seed rounds, and 23 Series A rounds. We saw a single Series C round in 2015: Yunmanman, a Chinese mobile app connecting truck drivers to 3PLs, which raised an undisclosed amount (hundreds of millions of yuan) in a deal led by Yunfeng Capital. Manbang was formed out of the merger of Yunmanman and its competitor Huochebang in 2017. The number of Series A deals increased from six to 23 from 2014-5, and the average Series A more than doubled in size from $3.1M to $8.6M.

The next year, 2016, represents the middle year of our study, and it maintained the strength of the TransportTech VC pipeline as the number of Seed rounds rose from 57 to 66. The size of the average Seed round grew 140% from $500K to $1.2M. Meanwhile, the average Series A increased from $8.6M to $13.6M from 2015 to 2016, and the Series B rounds ballooned from five deals averaging $26.9M in 2015 to eight deals averaging $38.2M in 2016. Notable North American deals in 2016 include FourKites’ $13.4M Series A and Flexport’s $65M Series B. The middle year of our study, 2016, showed how small bets on early stage startups continued to be spread around by investors, but as the number of companies making it to Series C dwindled, the investments grew concomitantly larger.

In 2017, TransportTech really came into its own with 132 total deals, up from 118 the year before. The sector’s pipeline widened considerably from 66 Seed rounds to 75, and the average Seed round size grew 25% from $1.2M to $1.5M. The absolute number of Series A deals decreased slightly from 19 to 17, but the average Series A size grew from $8.6M to $13.6M to $18.2M. In 2017, capital noticeably shifted to later stage rounds, as the number of Series B rounds went from eight to eleven (the average Series B deal growing 14% to $43.6M) and the number of Series C deals more than doubling from three to eight (with the average remaining stable around $40M).
Last year started off slowly, in fact: the first eight figure deal was not closed until Bringg, an Israeli startup with a digital platform to optimize B2B and B2C delivery, raised a $10M Series B on March 14.

Just a week later, BlackBuck—‘India’s Convoy’—closed its $70M Series C. A week after that, Freightos, a Hong Kong-based SaaS company providing data on maritime freight markets, closed a $25M Series B led by GE Ventures.

The rest of 2017 proceeded quickly: Peloton Technology, a California-based startup building autonomous platooning systems for trucks, raised a $65.32M Series B led by the telematics provider Omnitracs; then Loadsmart, an AI freight quoting and booking platform, raised a $10.1M Series A. Transfix, a digital brokerage, closed a $42M Series C; Yimidida, a crowdsourced delivery service for rural China, raised a $44.29M Series B, and Convoy raised its $62.5M Series B. To close out the year, Flexport, CargoX, and Rivigo (a digital brokerage in India) raised large rounds.

This year, the TransportTech VC marketplace continued its evolution and maturation process. Through the end of the third quarter, the number of seed rounds fell to 39 from 75 in 2017. The number of Series A rounds fell to 10 year to date from 17 in 2017. The action in 2018 so far has been in the six companies who completed Series C rounds: Tiandihui, a Shanghai based load-matching platform, raised $79M; Yimidida closed a $79M round; Convey, an Austin, Texas-based software company matching online retailers with logistics services, raised $44M; Freightos raised $44M; and Convoy raised $185M.

FreightWaves expects further mega-deals like the Soft Bank Vision Fund’s investment in the Manbang Group in the future, as unicorns establish commanding market share and money seeks a home in an aging expansion. Sequoia Capital’s Global Growth Fund III is on track to raise $8B this year. Scale Venture Partners, Index Ventures, and Lightspeed Venture Partners announced $4B in new cash, spread out among six funds. Salesforce Ventures, GV, New Enterprise Associates, and Accel are other late-stage VC firms that may become involved. We also expect more activity from private equity (PE) firms and traditional financial institutions as startups mature and make their exits; PE groups will also facilitate mergers and acquisitions between startups.

Data sources: Pitchbook and Freight.Tech analysis