

Travel, Logistics & Infrastructure Practice

Start-up funding in logistics: Adjusting to a new reality

Funding for logistics start-ups tightened in 2022. Where are investors focusing their interest now?

by Sandy Gosling, Ludwig Hausmann, Maite Peña-Alcaraz, and Tobias Wölfel



After surging in 2021, funding for logistics start-ups slowed substantially in 2022. Among the causes of the slowdown: a more challenging macroeconomic environment coupled with a decline in the growth of e-commerce. Investment in logistics start-ups fell by nearly 50 percent year on year, with the steepest drop occurring in the year's second half as higher interest rates took a severe toll on venture capital activity.

Our June 2022 article “Start-up funding in logistics: Focused investment in a growing industry” examined the 2021 boom, when funding reached an all-time peak for the sector. This article explores the more recent deceleration, while offering a granular view of funding shifts within industry subsectors.

Our analysis is based on a sample of roughly 600 logistics start-ups accounting for more than \$90 billion in funding. We analyzed funding by industry and region, with an eye toward changing marketplace dynamics.

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Funding for logistics start-ups dropped by half in 2022

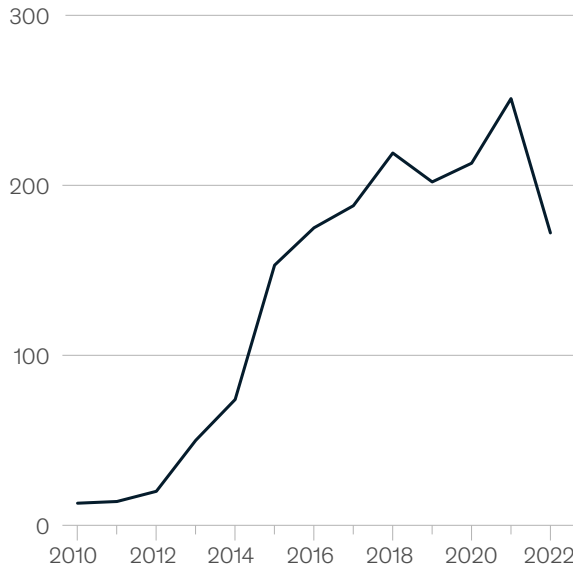
After growing more than 70 percent per year beginning in 2014, funding for logistics start-ups reached an all-time high of \$25.4 billion in 2021. It appeared the following year might bring more of the same when February 2022 saw a \$935 million funding round for the logistics technology start-up Flexport (bringing its valuation to \$8 billion).¹ But this early promise proved illusory. By the end of 2022, funding had fallen by 49 percent year on year. The eventual total of \$12.9 billion still exceeded the totals for 2019 and 2020, but it was a notable departure from the explosion in funding that marked 2021.

This drop was also more precipitous than the roughly 30 percent decline that took place last year in overall venture capital investment. Meanwhile, the logistics sector's share of worldwide venture capital funding across all industries fell from 3.5 percent in 2021 to 2.6 percent in 2022. This funding slowdown for logistics start-ups was caused in large part by a second-half plummet in activity: first-half funding totaled \$9.8 billion, while second-half funding slowed to \$3.1 billion.

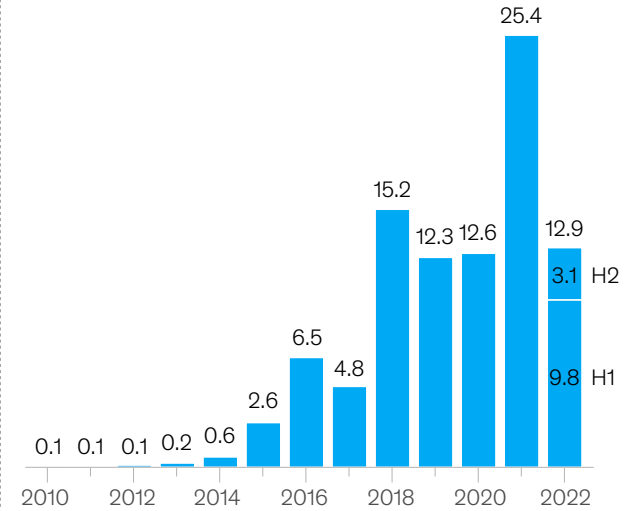
Funding for logistics start-ups has seen dramatic long-term growth, but funding fell significantly in 2022.

Number of venture capital funding rounds and total funding for logistics start-ups

Funding rounds, number



Funding, \$ billion



Source: CB Insights; Crunchbase; company websites

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¹ Grace Sharkey, "Flexport winning \$8b valuation with tech-enabled global logistics: Shopify among investors in \$935 million funding round," FreightWaves, February 7, 2022.

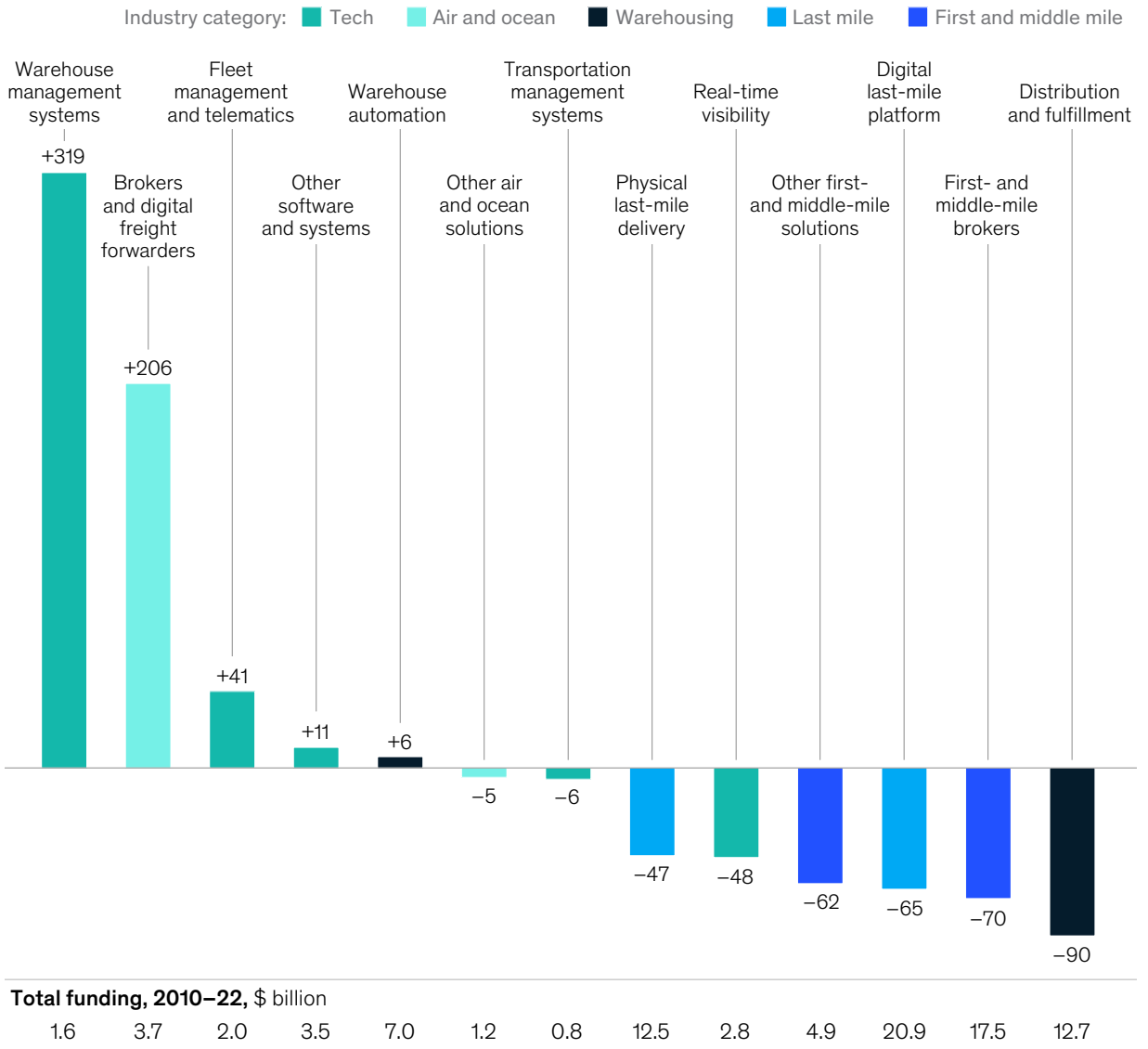
A closer look reveals subsector differences

The second-half decline in logistics start-up funding was a result, in large part, of higher interest rates weighing on venture investment. But the drop was also spurred by the ongoing shift in consumer spending from goods to services as the global economy emerged from the COVID-19 pandemic. Logistics segments that experienced extraordinary growth at the height of the pandemic—especially those that touch on e-commerce—are now facing an altered landscape, with slower growth expected in the short term.

The funding pullback was most pronounced in three subsectors: distribution and fulfillment start-ups focused on warehouse picking and packing and orchestration of deliveries (down 90 percent), first- and middle-mile brokers focused on truck brokerage (down 70 percent), and digital last-mile platforms (down 65 percent). Meanwhile, segments with smaller overall funding levels—such as warehouse management systems and digital freight forwarders—increased overall funding year over year, in large part due to a few singularly large individual funding rounds (including Flexport's) toward the beginning of the year.

Funding for logistics start-ups in 2022 shifted away from e-commerce solutions.

Change in total funding, 2022 vs 2021, %



Source: CB Insights; Crunchbase; company websites

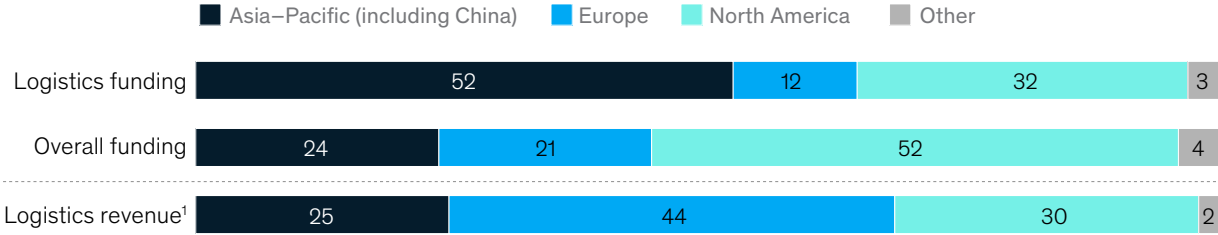
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Funding varies by region, with Asia-Pacific playing a significant role

From 2010 to 2022, the Asia-Pacific region received 24 percent of overall venture capital funding—and 52 percent of the venture funding directed to logistics start-ups. This is likely because of the logistics sector in Asia being relatively less developed (and featuring less outsourcing), which offers wider opportunities for start-ups to capture market share. However, Asia-Pacific decreased its share of logistics funding in 2022 (possibly as a result of longer lockdown periods, which complicated economic recovery), with Europe’s share growing in response.

From 2010 to 2022, logistics start-ups in Asia-Pacific received a disproportionate concentration of venture funding.

Funding in logistics vs overall venture funding, by region, share of total, 2010–22, %



GDP contribution vs logistics revenue contribution, by region, share of total, 2022, %



Note: Figures do not sum to 100%, because of rounding.
¹Determined by looking at global revenue of the top 50 logistics service providers as ranked by Armstrong & Associates.
 Source: Armstrong & Associates; Crunchbase; International Monetary Fund; KPMG Venture Pulse

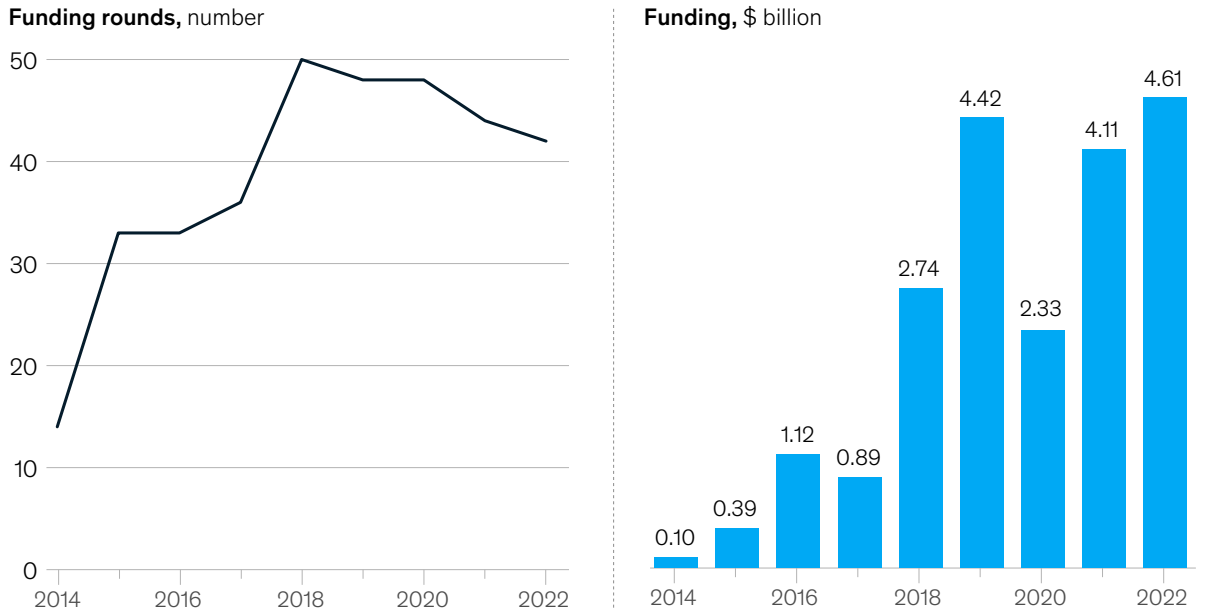
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Sustainable logistics was a 2022 bright spot

Funding for logistics companies that market sustainable services increased by 12 percent in 2022. And sustainable logistics start-ups—meaning those that have sustainability-related business models or value propositions—grew their share of total logistics start-up funding from 16 percent to 36 percent. These shifts in funding reflect changing market demands, as customers clamor for more supply chain visibility and for business models built on an environmental, social, and governance (ESG) framework. Last-mile and warehousing start-ups accounted for the largest share of sustainability-related funding, likely due to their greater exposure to private consumers who express interest in ESG-related offerings. This may evolve over time, particularly as sustainability targets become more regulated across the globe—shaping the B2B as well as the B2C landscape.

Funding for sustainability-oriented logistics start-ups is on the rise.

Number of venture capital funding rounds and total funding for sustainable logistics start-ups¹



Breakdown of sustainable logistics funding, 2010–22, %



¹Logistics start-ups filtered by sustainability keywords and environmental, social, and governance initiatives. Source: Crunchbase; company websites; PitchBook

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We believe that the long-term, upward trend in logistics start-up funding—fueled by innovation in the sector—won't be reversed by the recent short-term decline. Logistics has come a long way as an industry, but there is still much value to be claimed as it remains more fragmented, less digitized, and less attuned to ESG concerns compared with other industries.

Here are some takeaways for stakeholders:

- In our first report in 2020, we projected that advantages would accrue to start-ups that could demonstrate a clear route to profitability.² Because interest rates have risen—and will likely remain comparatively elevated for some time—pathways to positive cash flows have become even more important.
- Weighing the potential to hyperscale a business model against the feasibility and costs of doing so will be key. The time and effort required to scale—particularly in traditional logistics segments—must be assessed with clear eyes. Calculations should consider not just total addressable markets (which might seem huge at first glance) but also more practical scenarios, accounting for the size of markets that could realistically be reached and serviced. Not all start-ups are competing in winner-take-all environments, which means incremental growth can still be valuable.
- Consolidation is likely to be an important theme in the coming months and years—both in terms of funding and M&A. Investments are already beginning to concentrate, with large start-ups now accounting for more than 90 percent of the total funding in certain subsegments (such as digital forwarding). Opportunities for M&A could be heightened if some start-ups become distressed by the macroeconomic environment.

We believe that the long-term, upward trend in logistics start-up funding won't be reversed by the recent short-term decline.

²Ludwig Hausmann, Tobias Wölfel, Jaron Stoffels, and Oliver Fleck, "Startup funding in logistics," McKinsey, May 28, 2020.

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