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Transfix sale highlights VC’s uneasy fit with freight brokerage

Transfix earlier this month said it was selling its brokerage business to third-party logistics provider NFI. Photo credit: Thatree Thitivongvaroon / gettyimages.

Eric Johnson, Senior Technology Editor | Jun 17, 2024, 2:41 PM EDT

In an eight-month period, the digital freight brokerage model has taken multiple body flows that demonstrated a heavier exposure to market dynamics than the incumbents that digital brokers were trying to unseat.

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In early June, Transfix said it was selling its brokerage business to third-party logistics provider NFI while keeping its technology unit to sell as a standalone software product. That came after the October demise of fellow “digital broker” Convoy.

Those two companies emerged among a group of digital brokers in the mid-2010s, a list that also included Loadsmart and Uber Freight, and drayage brokers Cargomatic and NEXT Trucking.

Convoy's brokerage business is now gone. Its technology was acquired in November by Flexport, which has turned it into a standalone marketplace app for brokers and carriers. Uber Freight acquired Transplace in 2021 and has used the acquisition to try to gain a sustainable foothold in the market.

NEXT Trucking, which raised $124.1 million, was acquired by CDL 1000, another drayage broker, in February after post-pandemic financial struggles. Forager, a cross-border-focused trucking broker, was acquired by broker Arrive Logistics in February 2022.

Only Cargomatic, Loadsmart and Nuvocargo (another cross-border broker backed by venture capital investors) have been untouched by M&A out of the original digital brokerage cohort.

The uneven success of the digital brokerage model suggests that the foundations of the market were harder to disrupt than venture investors first envisioned a decade ago, and maybe even harder than some of the founders of the digital brokerages had foreseen.

First, the emergence of digital brokers came as brokerages, in general, grew after the deregulation of the trucking industry in the 1980s, so there was increasing competition in an already fragmented market. This was not a market ready to be wiped away.

Secondly, the capital needed to build an actual technological moat in a price-sensitive market was huge. Look no further than Convoy, which many believed had indeed built differentiated tech. But the cost to build that tech, spent initially on subsidizing rates and then later on an army of developers, was hard to sustain in a persistent down market, such as that which existed from mid-2022 through last fall.

But digital brokerage was always a bet on the unknown. The venture industry that fueled the rise of the digital broker is built around the mathematics of asymmetrical gambles. A fund may invest in 20 companies that it believes will be successful. But history shows that only a fraction, if any, of those companies will ever become truly huge.

That is how venture fund math works. One or two companies in that portfolio of 20 may, in the parlance of venture, return the whole fund. The other 18 or 19 are shuttered or sold for spare parts.

Later stage funds — the type that invested hundreds of millions into Convoy — have a similar diversification strategy across the industries into which they invest. So digital freight brokerage may have been one bet among several within the logistics industry, and the logistics industry would be one bet among several other industries.

Seasoned bettors at the racetrack don't fall in love with a single horse or race, but rather accumulate their winnings across the entire year. In this case, digital brokerage may have been a race filled with horses that didn't yield a big win, but there are eight other races every day to offset the losses.

While critics have long claimed digital brokerage was indistinguishable from brokerage in general, venture investors a decade ago made a different bet. They theorized that brokers borne in a browser-based environment could disrupt the market by reducing the cost to acquire and serve customers.

But those two market forces — a relentlessly competitive and fragmented market and a cyclical industry that places a premium on cost containment during down cycles — don't play nicely with the economics of venture-backed businesses.

Transfix as a microcosm

Transfix's struggles are a perfect microcosm. The company tried to go public in late 2021 through a special purpose acquisition company, a move that got derailed by a swift downturn in public markets. It then got a $40 million lifeline from investors in October — the same day Convoy shut down — but that infusion came right into the teeth of the domestic freight downturn.

The brokerage business lasted only eight months more before its sale to NFI.

The fire may not be completely doused, though. There is a sense that names such as Convoy and Transfix died so others could live. Bill Driegert, head of trucking at Flexport and a former Uber Freight executive, told the *Journal of Commerce* that the money Convoy spent on digitizing things was actually meaningful.

Transfix's founders similarly believe the technology division has legs as a standalone business.

And it's undeniable that the emergence of the digital brokerage model compelled other brokers to look hard at their internal and customer-facing technology setups to ensure they were operating at peak efficiency and engaging with customers in a more automated fashion.

But the harsh reality of brokerage — and the truckload market in general — is that market forces come for everybody, from the biggest brokerage in the world to the upstarts trying to change the game.

In the end, the game usually wins.

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