Why European corporates are investing $1B in industrial tech startups

2022 has seen a surge in corporate investment in European industrial tech startups, with the year's total set to exceed $1B. This is triple the amount invested by corporates in 2020, and represents nearly 20% of the year's total investment in Europe's industrial tech ecosystem.

Like most of the tech and startup world, European industrial tech companies benefitted from an immense bull market and high investor confidence between 2020-22. But what specifically has prompted corporates to direct more capital into the space?

There are two motives behind this trend: one short-term, and one long-term. In the short-term, corporates have needed to expedite technological change to react rapidly to macroeconomic crises across the continent. In the long-term, corporates also want to tackle the significant structural challenges facing European industry.

Short-term: Responding to crises

This technological surge began with the Covid-19 pandemic. Over mere weeks and months, the economy was forced to pivot vast swathes of operations to adapt to public health restrictions regarding social distancing and remote working. The ramifications were wide-ranging, but the immediate pain point many organisations had to address was logistics and the automation of production and procurement.

This led to a major drive for new technologies and platforms to automate, streamline, and digitise logistics, production and procurement. At first, 2020 remained on-trend for investment in logistics and procurement startups at $157M. However, once the time lag implicit in dealmaking elapsed, 2021 saw investment in European logistics procurement startups *shoot up* to $1B, with 2022 seeing a further $515M invested in the space.

Logistics difficulties created an important motive for industrial corporations to invest in technology. Along with encouraging solutions that could enter the market and bolster their productivity, corporates also invested for strategic purposes. Through investing in industrial tech startups, corporates can better steer the development of companies and platforms to meet their organisational needs, and also position themselves well for potential acquisitions.

A similar trend also occurred in response to labour shortages across the European economy in late 2020 and 2021. This period has seen robotics becoming an increased investment focus, as industrials and enterprises look to improve productivity and reduce their demand for labour. Across the continent, 2022 *saw total investment* in European robotics startups rise by 37% to $776M.

Long-term: Dealing with structural challenges

While Europe's recent crises have driven the pace at which the continent's corporates have invested in industrial tech, it's important to remember that the underlying trend already existed. Corporates have been increasingly looking to technology throughout the last decade as part of their response to structural shifts facing European industry and society.

Take, for example, the problem of an ageing population in Europe. Many European corporations relied heavily on labour substitution via migration to handle the gradual reduction in the workforce post-1990. However, with birth rates on a global decline, this strategy is increasingly coming under stress. As a result, corporate interest in productivity-boosting technologies – whether it be robotics, enterprise resource planning tools, logistics platforms, or so on – has substantially increased.

Industrial tech startups are an extremely effective way to build affordable and scalable solutions to bolster productivity. They also help ring-fence risk away from corporate R&D departments, allowing in-demand R&D teams to focus on delivering more reliable innovation while startups take transformative risks.

Along with the ageing population, several other central societal challenges are spurring industrial tech investment by European corporates. One major topic that is weighing hard on industry is climate change, with many also directing capital to startups developing tools or techniques to help mitigate, adapt, or offset emissions. Another closely related issue is addressing energy and heating efficiency, especially as many European industries grapple with the end of Russian natural gas this year.

While recent crises have spurred an acceleration of investment in Europe's industrial tech startups, the overarching trend was already well underway. Ultimately, radical innovation will be needed to resolve the central demographic, environmental, and geopolitical challenges facing the continent and its economy.

In an age of on-shoring and deglobalisation, European corporates have are rising to this challenge attracting, investing in, and collaborating with the continent's founders and innovators.

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