

Instacart's Evolving Business Model: A Sustainable Growth Strategy?

University of Muenster Consulting

Addressee:

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Goals of the meeting



- Develop strategy for long-term growth
- Securing profitability of that strategy

Agenda

1. Management summary

2. Analysis and development of alternatives

3. Recommendation

4. Implementation

5. Financials and risks

6. Conclusion

In order to clearly define where to play and how to win the strategy “One Market fits all” is recommended providing US\$21.8 bil revenue in 2025

Why change the direction?

Status quo

1. Commissions

- Partner charged % of each order as a fee
- Virtually no margins for partners

2. Delivery fee

- Customer pay a fee
- Either for each order or subscription

3. Advertisements

- Partner pay for ads in the app
- Competition between partners

How to change direction?

Initiatives

Platform business model

- Provide platform for partners
- Focus on ad revenues
- Partners carry out delivery

One Market fits all

What does this change provide?

Outcome

High margins

- Rising advertising revenues
- Reduced operating costs

Strong market position

- Superior service offer
- Large number of customers enables fear of missing out for partners

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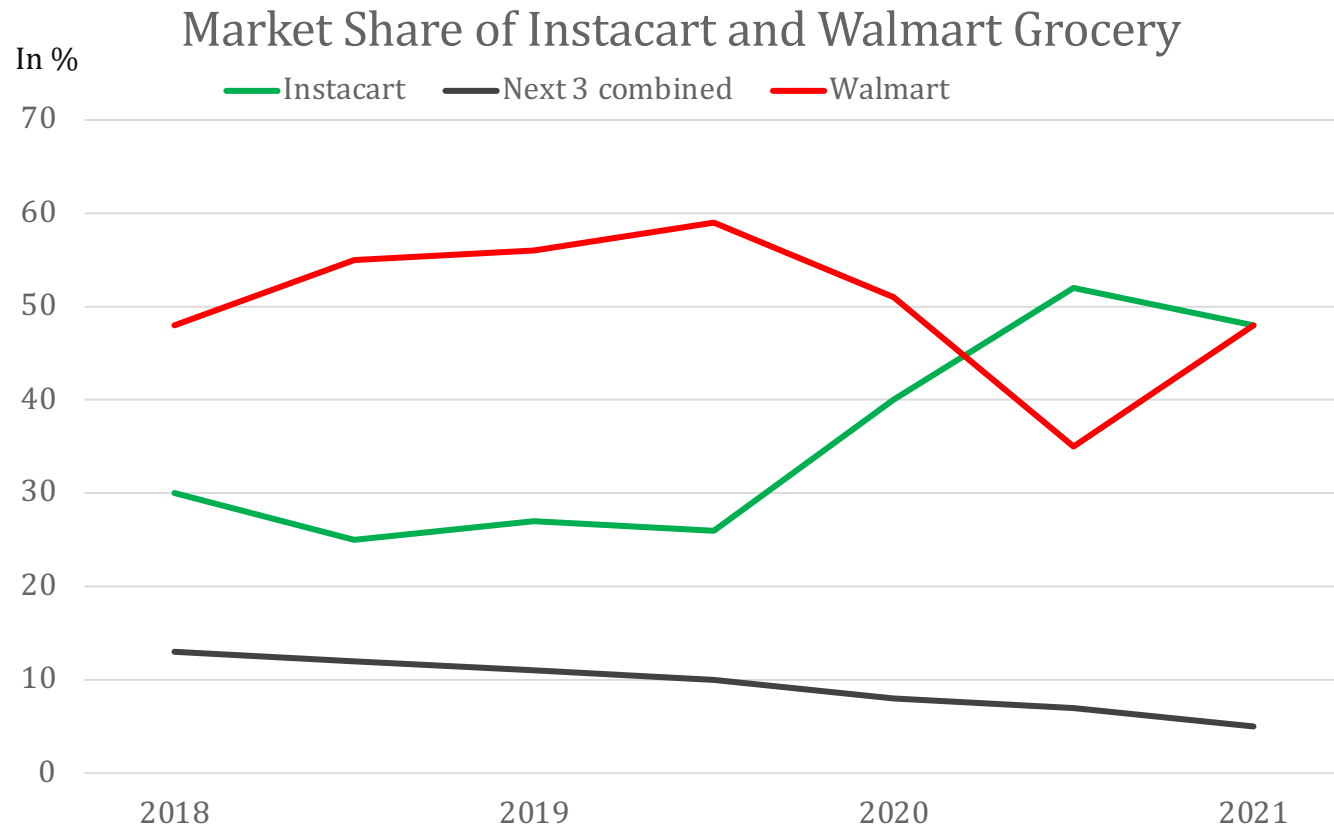
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Market shares and developIn order to gain market leadership a unique selling proposition is needed



- Currently two big players leading the Market – Instacart and Walmart
- Other competitors have a rather secondary role
- Unique selling proposition needed in order to compete with Walmart

Different drivers influence Instacarts organization...

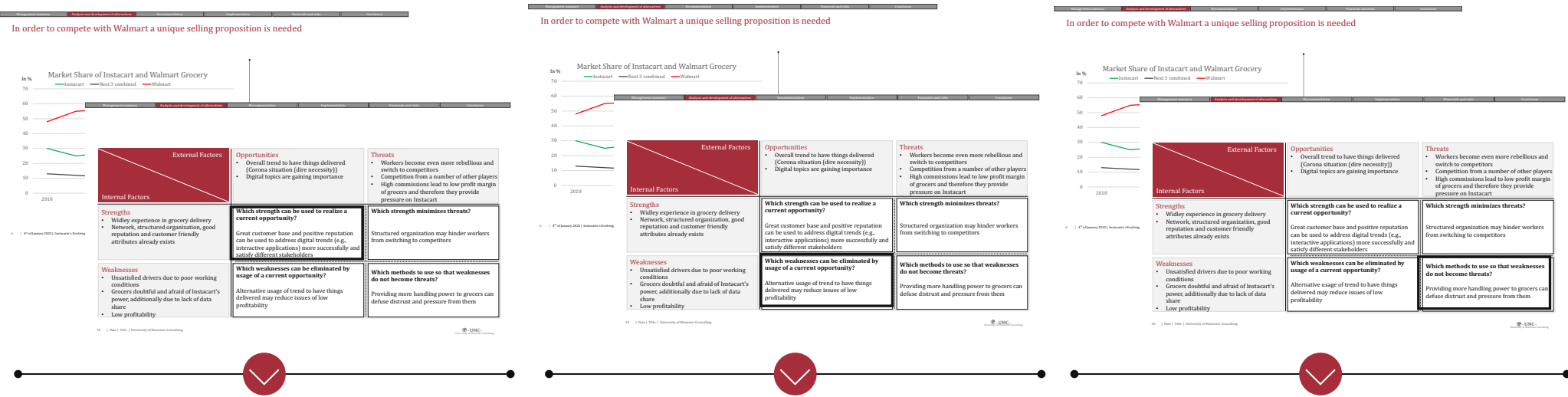
<p style="text-align: right;">External Factors</p> <p style="text-align: left;">Internal Factors</p>	<p>Opportunities</p> <ul style="list-style-type: none"> • Overall trend to have things delivered (Corona situation (dire necessity)) • Digital topics are gaining importance 	<p>Threats</p> <ul style="list-style-type: none"> • Workers become even more rebellious and switch to competitors • Competition from a number of other players • High commissions lead to low profit margin of grocers and therefore they provide pressure on Instacart
<p>Strengths</p> <ul style="list-style-type: none"> • Widely experience in grocery delivery • Network, structured organization, good reputation and customer friendly attributes already exists 	<p>Which strength can be used to realize a current opportunity?</p> <p>Great customer base and positive reputation can be used to address digital trends (e.g., interactive applications) more successfully and satisfy different stakeholders</p>	<p>Which strength minimizes threats?</p> <p>Structured organization may hinder workers from switching to competitors</p>
<p>Weaknesses</p> <ul style="list-style-type: none"> • Unsatisfied drivers due to poor working conditions • Grocers doubtful and afraid of Instacart's power, additionally due to lack of data share • Low profitability 	<p>Which weaknesses can be eliminated by usage of a current opportunity?</p> <p>Overall trend or demand to have things delivered will continue further and therefore may increase profitability</p>	<p>Which methods to use so that weaknesses do not become threats?</p> <p>Providing more handling power to grocers can defuse distrust and pressure from them</p>

...especially Instacart's existing customer base and know-how in grocery market may provide a promising basis for future

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From the results of the SWOT analysis and the current market situation three alternatives for Instacart can be derived – Platform economy, using own warehouses and partnerships

Swot and market analysis



Combined key results



Existing customer base and market position combined with opportunity to address digitalization topics

Using current delivery trend (corona situation) to become independent and market leader

Providing more handling power to grocers can defuse distrust

Deduction of alternatives



1: Platform economy

2: Own warehouses

3: Partnership with grocers

These three alternatives can be transformed into strategies in order to establish a clear direction on how to win



1 | One Market fits all



1: Platform economy

Producing an overall platform economy without any own commissioners – clients can order groceries by using Instacarts platform

Network effects and short road to increased profitability



2 | Project Warehouse



2: Own warehouses

Building own logistic structure with supplies and acting completely on Instacarts own

Long road to profitability and independence



3 | Cooperate and Share



3: Partnership with grocers

Instacart delivers just for one big partner

Joint market leader



These three alternatives can be transformed into strategies in order to establish a clear direction on how to win



1 |



Which strategy is most suitable for Instacart at the present time?



Description:



Impact:

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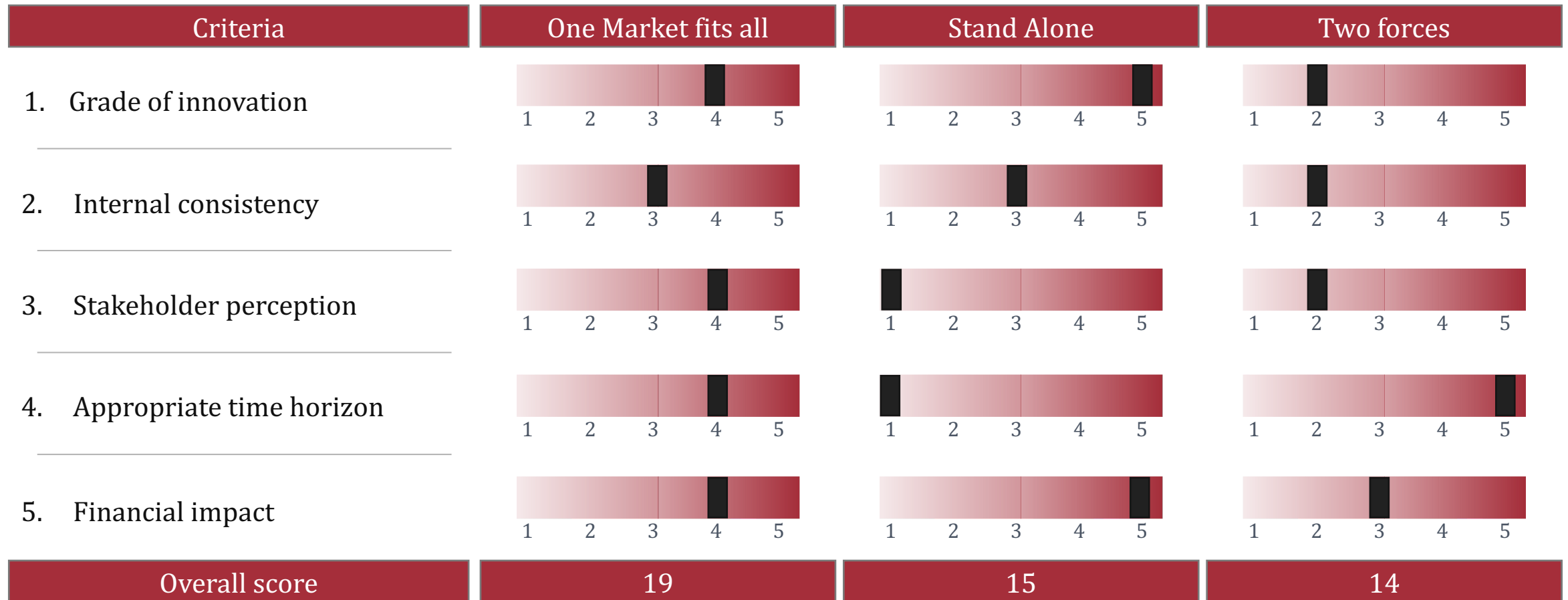
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Different criteria can be used in order to evaluate which strategy fits best for Instacart

1	Grade of innovation	The strategy should have a high focus on innovation due to customer needs
2	Internal consistency	In a well-organized company, each strategy fits into an integrated pattern – supporting the overall company goals
3	Stakeholder perception	The strategy must have fulfill the needs of the partners & customers
4	Appropriate time horizon	A strategy has a time-based utility; therefore, the strategy needs to be executed in time
5	Financial impact	The strategy should provide positive financial impact

„One Market fits all“ scores best compared to the other strategies especially due to its advantages regarding stakeholder perception grade of innovation



Key: 1: not satisfied 5: fully satisfied

These three alternatives can be transformed into strategies in order to establish a clear direction on how to win

Our recommendation

1 | One Market fits all



1: Platform economy

Producing an overall platform economy without any own commissioners – clients can order groceries by using Instacarts platform

Network effects and short road to increased profitability

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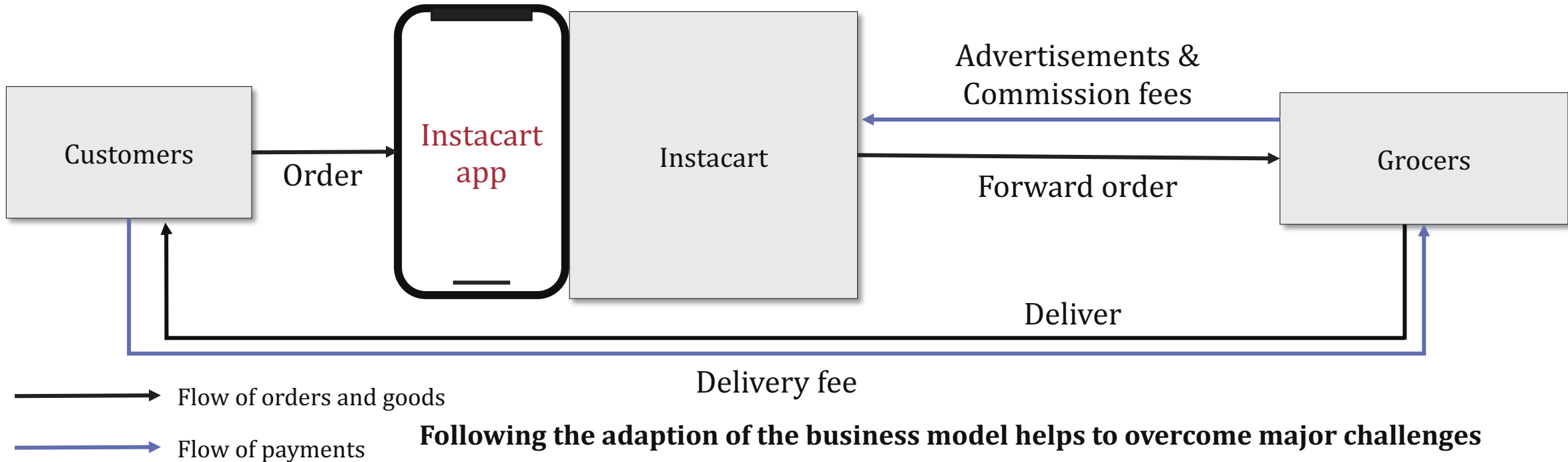


3: Partnership with grocers

Instacart delivers just for one big partner

Joint market leader

The “One Market fits all” strategy provides for delivery by grocers and Instacart working as the middle-man connecting grocers and customers



Less complications with supermarkets: lower commission revenues and higher profitability

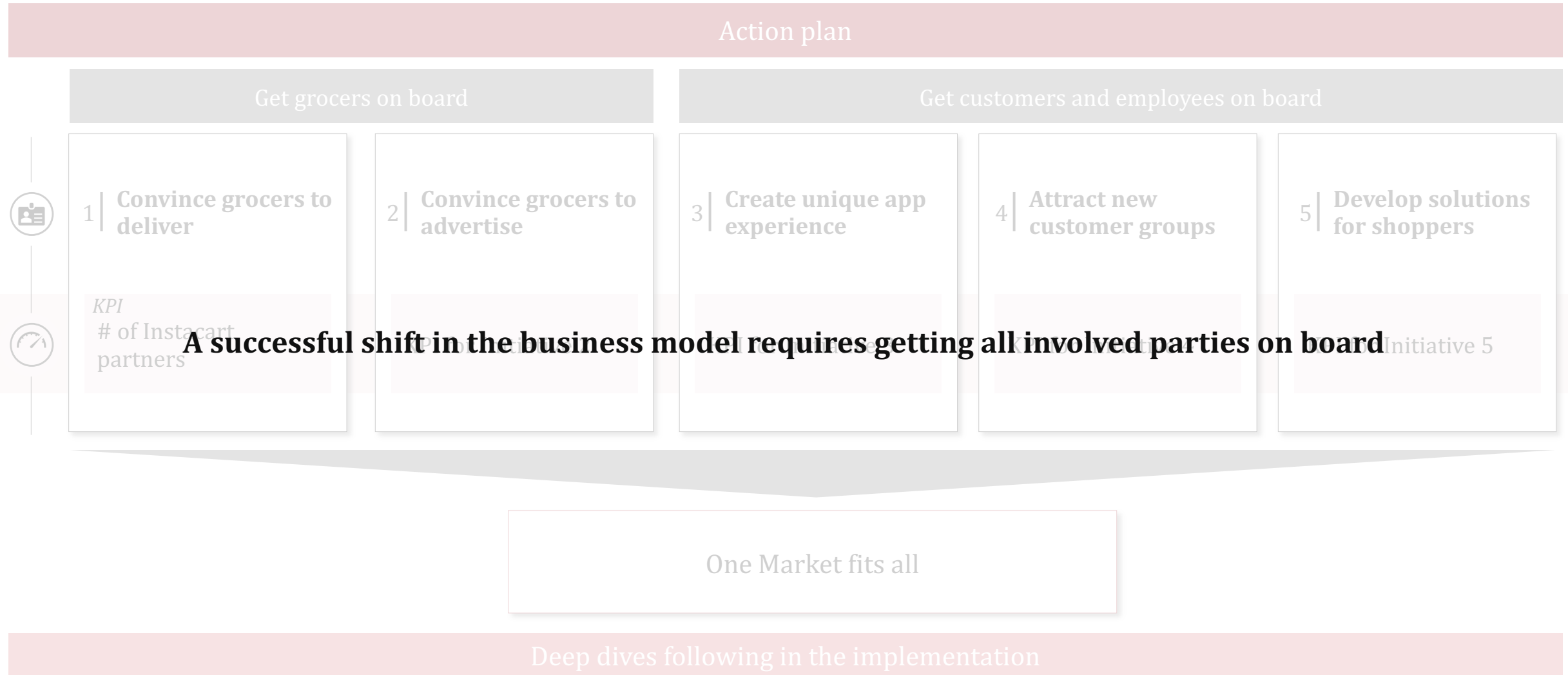


Less complications with unsatisfied drivers

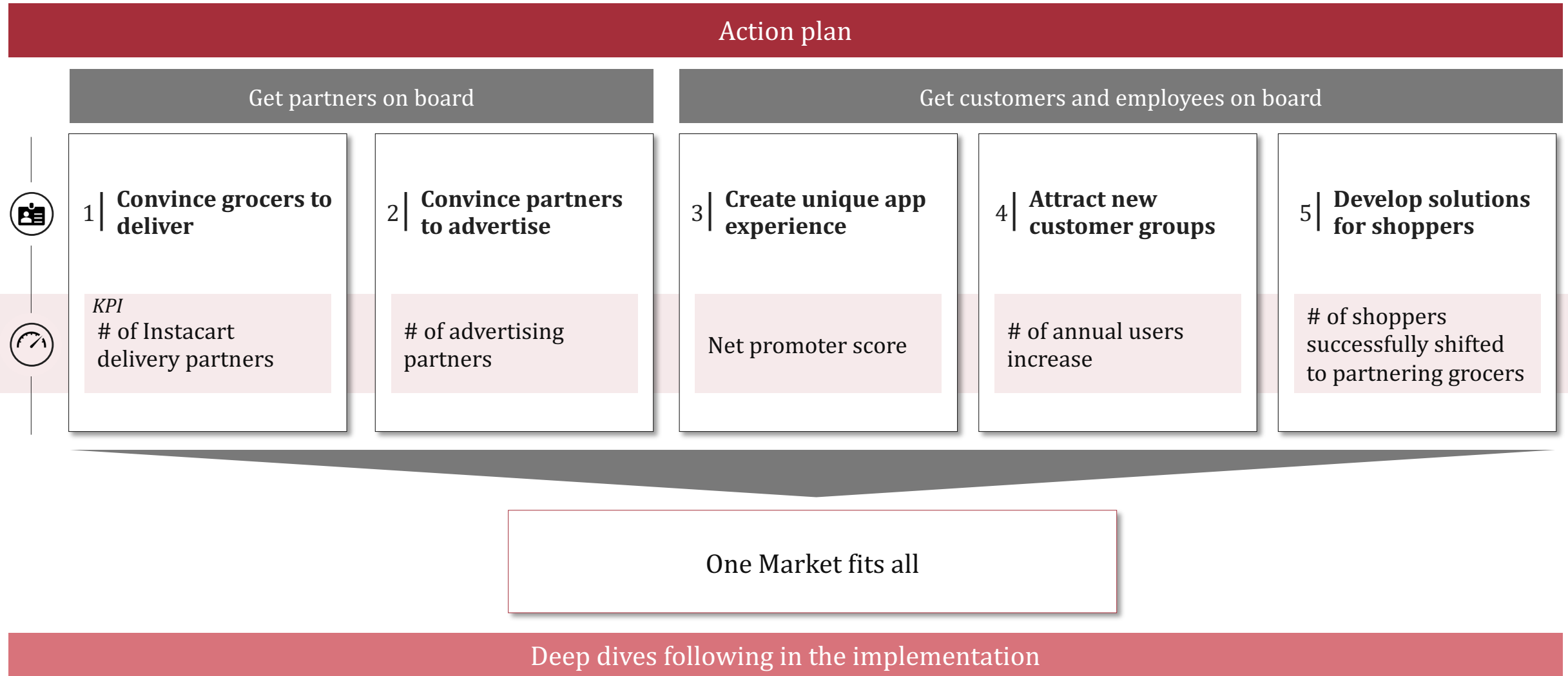


Higher profitability through focus on platform and high-margin ad business

The action plan to successfully implement “One Market fits all” is divided into two main pillars that include five initiatives



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Partners

Customers & employees

Partners| Convincing partners to keep distributing via your platform is a critical success factor

<p>What is it?</p>	 <p>Convince grocers to deliver</p>	<p>Partners</p>	<p>Customers & Employees</p>
<p>Why is it needed?</p>	 <ul style="list-style-type: none"> • A successful shift in the business model is based on partnerships with grocers • Grocers might not see the benefits of keeping delivering through Instacart 		
<p>How does it work?</p>	 <p>Convey message to all types of grocers</p> <ul style="list-style-type: none"> • Large customer base, generating fear of missing out • High customer convenience • Technological knowledge in the are of E-commerce • Grocers without own delivery service <ul style="list-style-type: none"> • Convince them of importance • Offer support in set up of an online delivery service 		
<p>Which KPI to use?</p>	 <p>Growth in partners- # of Instacart delivery partners</p>	<p>Strategic priority</p>  <p>low high</p>	<p>Effort required</p>  <p>low high</p>




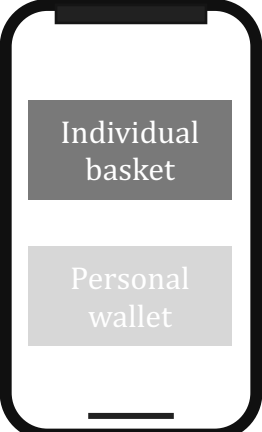



Partners| Partners must be attracted to advertise on the platform to benefit from high-margin ad business

<p>What is it?</p>	 <p>Convince partners to advertise</p>	<p>Partners</p>	<p>Customers & Employees</p>
<p>Why is it needed?</p>	 <ul style="list-style-type: none"> • A successful shift in the business model is based on partnerships with grocers • Grocers might not see the benefits of advertising through Instacart 		
<p>How does it work?</p>	 <p>Increase attractivity of advertising through the Instacart platform</p> <ul style="list-style-type: none"> • Allow advertising from entire retail industry • Determine the “advertiser of the month” <ul style="list-style-type: none"> • The 10 advertisers with the largest advertisement conversion through the platform • Offer those partners one month of free advertising • Incentivize advertisers to actively promote their products through your website 		
<p>Which KPI to use?</p>	 <p>Growth in partners - # of advertising partners</p>	<p>Strategic priority</p>  <p>low high</p>	<p>Effort required</p>  <p>low high</p>




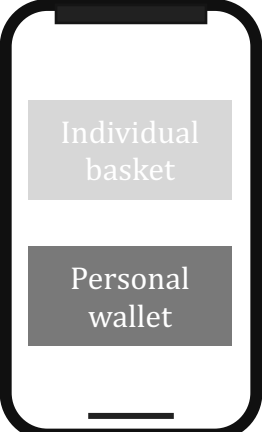



Partners

Customers & employees







Customers & Employees | Creating a unique app experience is the first major step to making the platform more attractive

<p>What is it?</p>	 <p>Create unique app experience</p>	<p>Partners</p>	<p>Customers & Employees</p>
<p>Why is it needed?</p>	 <ul style="list-style-type: none"> • Convincing partners relies on a satisfied customer base • A unique value proposition can be generated by top-level customer experience 		
<p>How does it work?</p>	  <p>Integrate creation of an individual basket of goods</p> <ul style="list-style-type: none"> • Customers create a wish list of articles they want to buy • Customers get an overview on available supermarkets • Automatic delivery time and price comparison <ul style="list-style-type: none"> • Category 1: Display supermarket with lowest price • Category 2: Display supermarket with shortest delivery time 		
<p>Which KPI to use?</p>	 <p>Growth of customer satisfaction – Net promoter score</p>	<p>Strategic priority</p>  <p>low high</p>	<p>Effort required</p>  <p>low high</p>







Customers & Employees | Creating a unique app experience is the first major step to making the platform more attractive

<p>What is it?</p>	 <p>Create unique app experience</p>	<p>Partners</p>	<p>Customers & Employees</p>
<p>Why is it needed?</p>	 <ul style="list-style-type: none"> • Convincing partners relies on a satisfied customer base • A unique value proposition can be generated by top-level customer experience 		
<p>How does it work?</p>	  <p>Integrate a personal wallet giving financial overviews</p> <ul style="list-style-type: none"> • Customers get personal dashboard on past expenditure • Categorization of expenses based on stores and product types • Overview on cost savings • Other exemplary key figures: favorite stores, favorite food category 		
<p>Which KPI to use?</p>	 <p>Growth of customer satisfaction – Net promoter score</p>	<p>Strategic priority</p>  <p>low high</p>	<p>Effort required</p>  <p>low high</p>

Customers & Employees | The larger user base generated through new customer groups makes working with Instacart more attractive

<p>What is it?</p>	 <p>Attract new customer groups</p>	Partners	Customers & Employees
<p>Why is it needed?</p>	 <ul style="list-style-type: none"> • Convincing partners relies on increasing customer base • To effectively increase the number of users, tech-reluctant groups must be addressed 		
<p>How does it work?</p>	 <p>Start the grandparents-grandchildren initiative</p> <ul style="list-style-type: none"> • Incentivize younger customers to help older generations set up an account • Once the grandparent has set up an account, both users get free delivery vouchers • Implement an easy onboarding tutorial for users to go through 		
<p>Which KPI to use?</p>	 <p>Growth of customer base – # of annual users increase</p>	<p>Strategic priority</p>  <p>low high</p>	<p>Effort required</p>  <p>low high</p>

Customers & Employees | The final step of the implementation plan is to ensure that employed shoppers have a safe job future

<p>What is it?</p>	 <p>Develop solutions for shoppers</p>	<p>Partners</p>	<p>Customers & Employees</p>
<p>Why is it needed?</p>	 <ul style="list-style-type: none"> • The new business strategy includes laying-off Instacart shoppers • Employees helping to grow the brand must not be abandoned 		
<p>How does it work?</p>	 <p>Show employees future job opportunities</p> <ul style="list-style-type: none"> • Offer qualified part-time jobbers (e.g., students) administrative jobs required in a growing company • Ensure transfer of shoppers from Instacart to delivery services of grocers <ul style="list-style-type: none"> • Large grocers with an existing delivery service: offer commissions free of charge • Small grocers without an existing delivery service: offer help in setting up infrastructure 		
<p>Which KPI to use?</p>	 <p># of shoppers successfully shifted to partnering grocers</p>	<p>Strategic priority</p>  <p>low high</p>	<p>Effort required</p>  <p>low high</p>

The presented initiatives should be implemented according to a timetable that ensures an efficient roll-out of the strategy

Initiative	2021				2022				2023				2024				2025				Milestones and Results	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Interaction with partners																					Close interaction with partners to prepare the switch to the new platform	
Development of platform																						Creation of a user friendly platform with a couple of front-end engineers and a IT-consultancy
Launching platform																					Platform launch and convincing partners and customers of the platform	
Growing community and ads																					Improvement of the platform while using customer and partner feedback	
Transferring employees																	Fair-3 year restructuring program for shoppers to find a new employer					

Legend: Milestone

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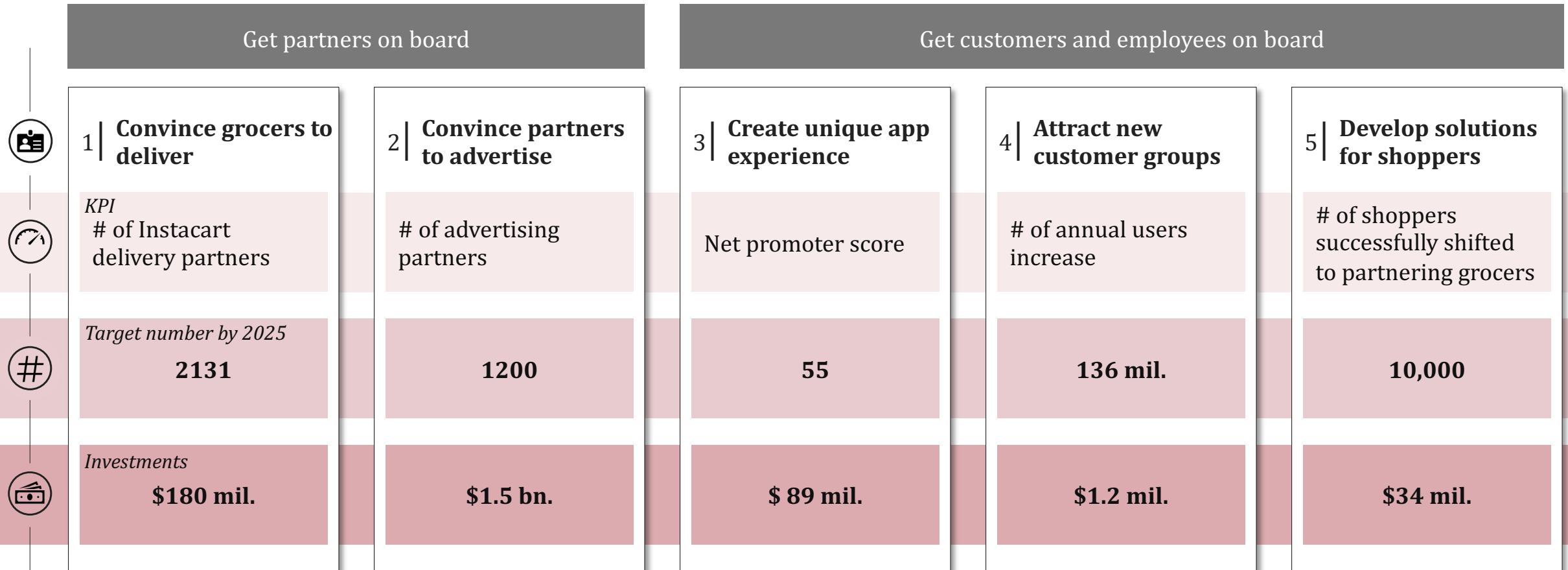
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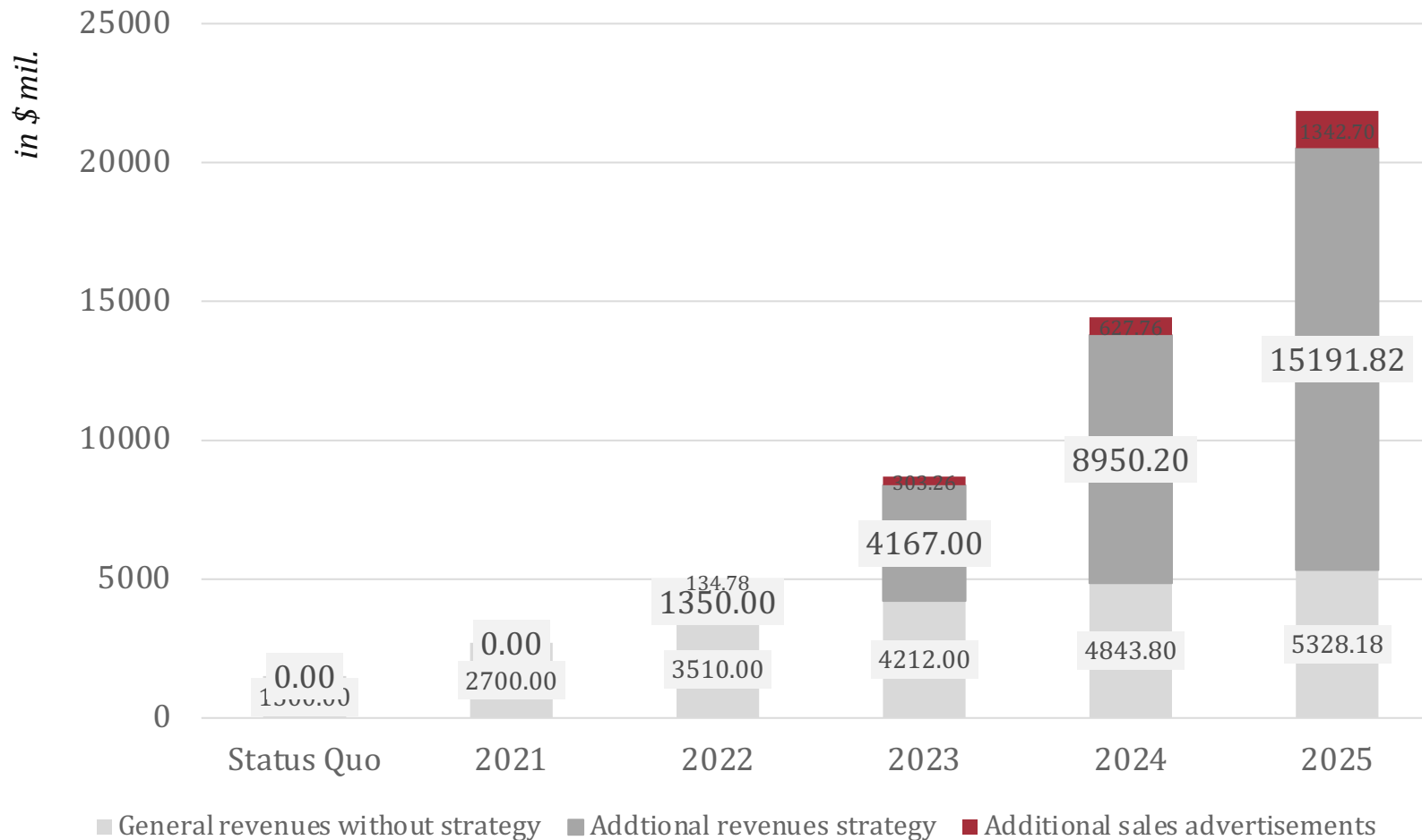
Measuring the success of the strategy, the initiatives should fulfil ambitious target numbers of specific KPIs



The mix of initiatives will lead to a positive impact on sales with moderate financial investments

One Market fits all gains additional revenues of \$32.1 bn. over five years and has an increasing impact on the total revenues of Instacart

General and additional revenues



Key revenue driver



Increasing interaction with customers and usage of the platform all over north america



Low fee per order for offering the platform services



Increasing advertisements sales after platform launch

The ambitious strategy will gain a NPV for the next five years of \$17.2 bn. and will be financed by actual cash and cash equivalents

Project net present value

	2021	2022	2023	2024	2025
Additional revenues strategy	0	1,350.0	4,167.0	8,950.2	15,191.8
Platform	-12.0	-62.0	-5.0	-5.0	-5.0
Cooperation with groceries	-0.4	-0.4	0	0	0
Advertiments	0	-120.0	-280.0	-540.0	-720.0
Restructuring Workers		-10.8	-18.6	-4.4	0
Free cashflows	-12	1,157	3,863	8,401	14,467
NPV	17,209				

in \$ mil.

Key assumptions

- Users North America:
 - 2021: 48.6 mil.
 - 2026: 136.8 mil.
- Revenue per order: 1\$
- New ad-partners:
 - 2022: 1080
 - 2026: 2131
- Rising price per advertisement:
 - \$7,000 - \$15,000
- # Letting of shoppers: \$8000
 - # Hired employees for IT-platform:

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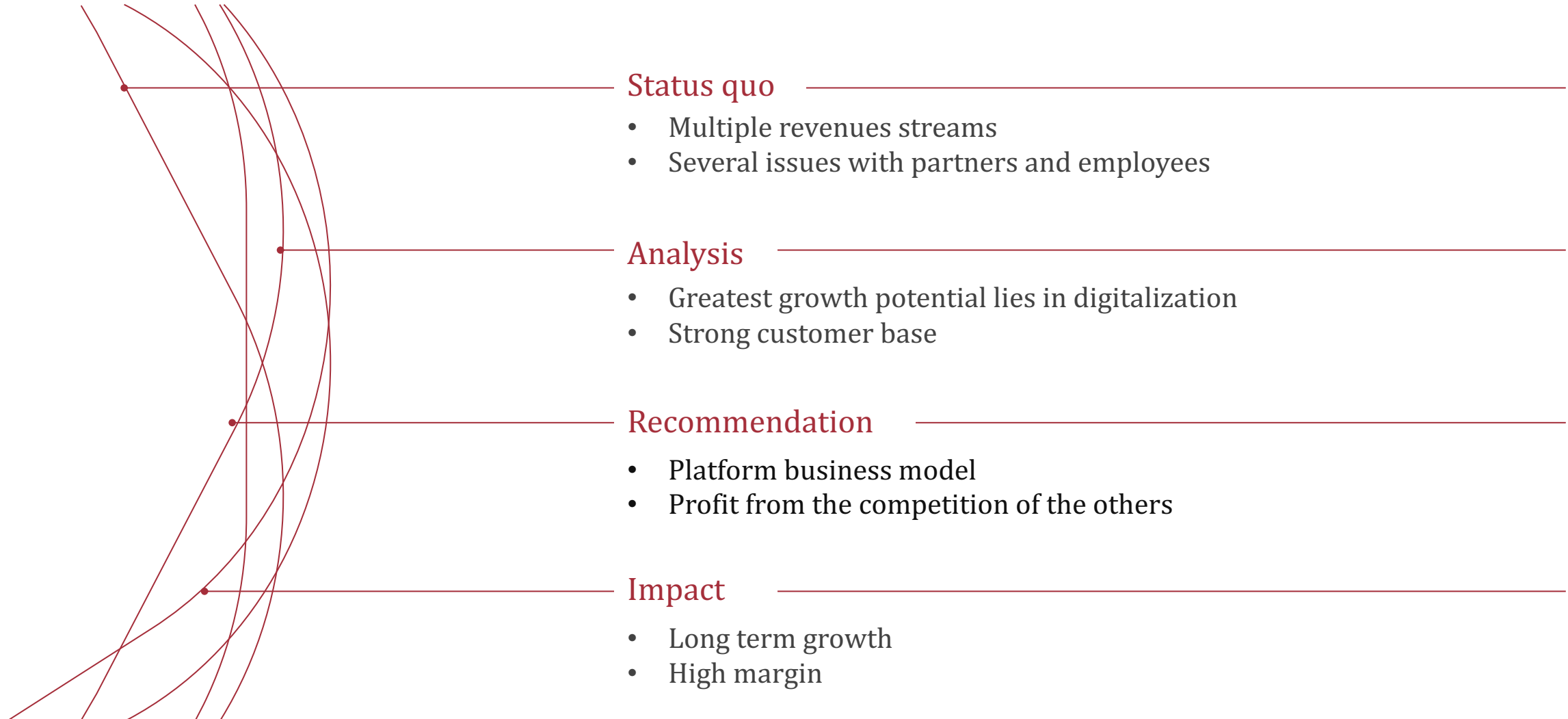
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The “One Market fits all” strategy enables Instacart to create a unique a platform for grocery delivery



A follow up project with the UMC would kick off with the following...

Action 1:

The Instacart experience

Action 2:

Communication plan

Action 3:

Staffing



Thank you for your attention.