

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

Abstract: Instacart had made a huge impact on the retail industry in the U.S. Its mission statement was 'to build a world where everyone has access to the food they love and more time to enjoy it together'. Instacart partnered with retailers, focusing on providing delivery services to their customers. It also offered end-to-end e-commerce solutions for grocers, supporting them with the tools and technology to bring their physical shopping experience to life online. During the pandemic, online delivery services had become a dire necessity and Instacart had almost become a phenomenon. While Instacart seemed to be the perfect partner for supermarkets, some grocers were growing skeptical of the partnership. It was also facing issues regarding the classification of its gig workers. Meanwhile, Instacart was building an advertising platform similar to that of Facebook. It was looking to gain from advertising, while not alienating its supermarket partners. Would Instacart's evolved business model help in sustaining its business growth? What strategies should Instacart adopt, to gain continued patronage from both supermarkets as well as its customers?

Case Study

*"Grocery is the largest retail category in the world, and yet it's still not digitized. We're excited by what the future looks like."*¹

– Apoorva Mehta²

Instacart claimed on its website that it was the 'world's largest online grocery service', with access to nearly 500 million products in its catalogue, 40,000 local grocery and chain stores offering its services

¹ Sorvino Chloe, "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", <https://www.forbes.com/sites/chloesorvino/2021/01/27/instacart-survived-covid-chaos---but-can-it-keep-delivering-after-the-pandemic/?sh=138abdcdbfa1>, January 27th 2021

² The Indian-Canadian Founder & Chairman of Instacart.

across more than 5,500 cities in the U.S. and Canada. Each year, it delivered or picked up millions of orders, connecting customers with their local stores.³ Instacart's delivery service was available to 85% of U.S. households and 70% of Canadian households.⁴ Its operations were based on the shared economy business model, offering 'hyper-local on-demand grocery delivery'.⁵

While Instacart seemed to be the perfect partner for supermarkets who were looking for e-commerce solutions, some grocers were starting to doubt the feasibility of the partnership. Many said that Instacart's commissions were high and that it ate into their already-thin profits. This forced some grocers to inflate their prices on the Instacart app. Some others were concerned about the control and influence that Instacart had over customer interactions.⁶ The larger implication was the customer data involved.⁷ The pandemic, however had given a boost to online delivery services, which had become a dire necessity. Instacart had benefitted greatly from this trend, recording phenomenal growth in revenues.⁸ Operating with the aim to deliver groceries 'within an hour', Instacart's mission statement was 'to build a world where everyone has access to the food they love and more time to enjoy it together'.⁹ Meanwhile, there was competition not only from Amazon but a number of other players. Instacart also faced issues from rebellious workers and restless partners.¹⁰ Amidst this scenario, would Instacart be able to continue its growth and sustain its business for the long term?

³ "Instacart: Order groceries for delivery or pickup today", <https://www.instacart.com/>

⁴ "Instacart Launches 'Priority Delivery' & Introduces 30-Minute Grocery Delivery", <https://www.prnewswire.com/news-releases/instacart-launches-priority-delivery--introduces-30-minute-grocery-delivery-301300454.html>, May 27th 2021

⁵ Anand Sarika, "Instacart Startup Story - Delivering Groceries Instantly", <https://startuptalky.com/instacart-success-story/>, May 16th 2021

⁶ Kang Jaewon, "Instacart Looked Like a Savior. Now Stores Aren't So Sure.", <https://www.wsj.com/articles/instacart-looked-like-a-savior-now-stores-arent-so-sure-11609151401>, December 28th 2020

⁷ Williams Natalie, "Instacart: The good, the bad, and the ugly for grocery retailers", <https://nielseniq.com/global/en/insights/commentary/2021/instacart-the-good-the-bad-and-the-ugly-for-grocery-retailers/>, April 23rd 2021

⁸ "Instacart Looked Like a Savior. Now Stores Aren't So Sure.", *op.cit.*

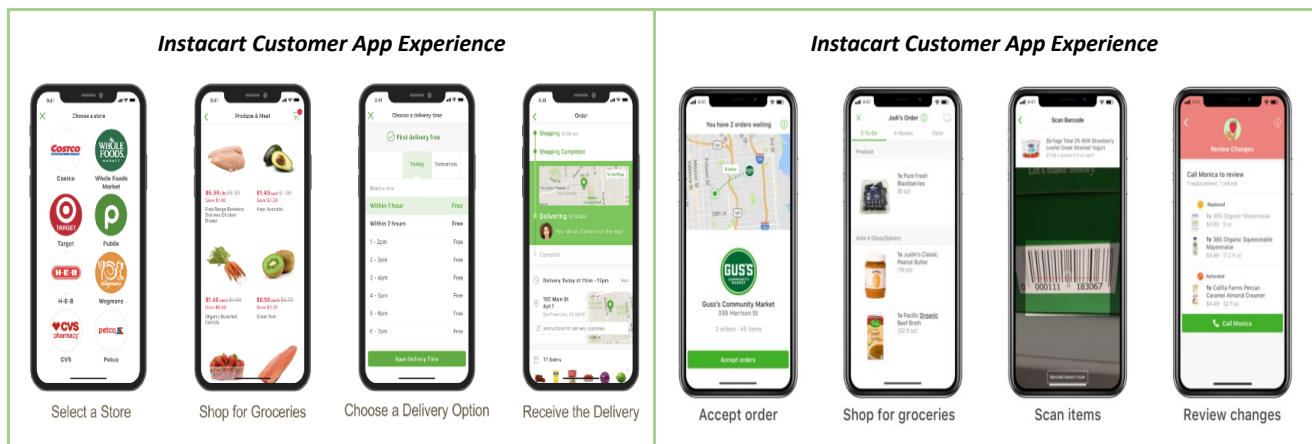
⁹ "Instacart Startup Story - Delivering Groceries Instantly", *op.cit.*

¹⁰ "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", *op.cit.*

Instacart: Making a Mark in the Grocery Delivery Business

In 2012, Apoorva Mehta (Mehta), a former Amazon employee¹¹ and entrepreneur, co-founded Instacart together with his friends, Max Mullen and Brandon Leonardo in San Francisco. Part of Y Combinator's 2012 class, Mehta started Instacart after receiving \$150,000 of funding.¹² Using the Instacart mobile app, customers could choose their preferred grocery store, browse through the grocery items, specify the items and the quantity they required, and confirm their order. Once the order was obtained, 'shoppers', who were either contract or part-time Instacart employees, shopped for the products requested by the customers, and delivered them to their doorsteps. Customers paid using the app and received their goods without leaving their houses.¹³ **(Exhibit I)**. During the early days, Mehta handled most of the operations by himself. He did most of the shopping, making deliveries using Uber. He admitted that he "...was doing things scrappy like that."¹⁴

Exhibit I
The Instacart App Experience



Source: Chen Ji, "Instacart Anytime: A Data Science Paradigm",

<https://tech.instacart.com/instacart-anytime-a-data-science-paradigm-33eb25a5c32d>, February 6th 2018

¹¹ He had worked as a supply-chain engineer with Amazon.

¹² "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", op.cit.

¹³ "Instacart Startup Story - Delivering Groceries Instantly", op.cit.

¹⁴ "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", op.cit.

Despite his efforts, Mehta did not receive support from retailers. “Most retailers in the very early days didn’t want anything to do with us... It took us many years of just showing up. It is entirely about trust,” he said. Mehta’s tenacity and determination led to a deal with Whole Foods in 2014, and this soon became Instacart’s major business. In 2017, when Amazon announced its acquisition of Whole Foods, Mehta was scrambling once again. “Instacart without Whole Foods was like Pizza Hut without pizza. It was that big,” Mehta said. However, there was some relief for Instacart since Whole Foods agreed to gradually terminate the partnership over a period of two years. During this time, Mehta visited almost every major grocer. He learned that the Amazon-Whole Foods deal had ‘spooked’ many of them as much as it had rattled Instacart. “Everyone had read the same books, the story of what happens when Amazon enters an industry,” Mehta said. At that point in time, retailers viewed Instacart as a far lesser threat compared to Amazon. He was able to add Kroger, Costco, Albertsons, Wegmans and Publix to his business. “This was incredibly difficult but definitely made us stronger... Now, as a company, we have the scar tissue that allows us to take on very hard challenges,” Mehta stated.¹⁵

Instacart also faced issues with its shoppers. Apart from independent contract workers, Instacart had in-store shoppers, who were stationed in certain supermarkets, picking groceries from shelves, packaging them, and readying them for pickup.¹⁶ In January 2021, ten part-time in-store workers joined one of the biggest unions in the country. Around the same time, Instacart announced that it would lay-off nearly 2,000 of its roughly 10,000 in-store shoppers. The union reacted, calling the move ‘outrageous’. Instacart, however, insisted that the move was part of a ‘long-planned transition away from having workers

¹⁵ “Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?”, *op.cit.*

¹⁶ Marshall Aarian, “Why Instacart Is Laying Off Workers as Deliveries Soar”, <https://www.wired.com/story/why-instacart-laying-off-workers-deliveries-soar/>, January 28th 2021

stationed in stores', and that grocers preferred to have their own employees fulfill the orders. Instacart added that the total layoffs were much less than 1% of its total shopper workforce.¹⁷

The tide turned in favour of Instacart with the COVID-19 pandemic. Almost suddenly, millions of Americans wanted to buy groceries online and were waking up at 3 a.m. to find a grocery pickup (or delivery) slot on Instacart.com. Instacart's grocery delivery service had turned from 'niche to a necessity'. "It's crazy to think about this, but in a two-to-four week period, we experienced the adoption of grocery e-commerce that we were expecting to see in a two-to-four year period. We saw a 500% jump in order volume. Almost overnight, we saw basket sizes expand 35% and Instacart become a lifeline for people across North America looking to get their groceries and goods delivered. We saw things that normally are always in stock - toilet paper, bottled water - just disappear from store shelves. And we had over 500 retailers, across nearly 40,000 retail store locations, more than half of North American grocery e-commerce basically, looking at us and saying, 'Hey, you got to be there and show up for our customers,'" explained Instacart President, Nilam Ganenthiran (Ganenthiran).¹⁸

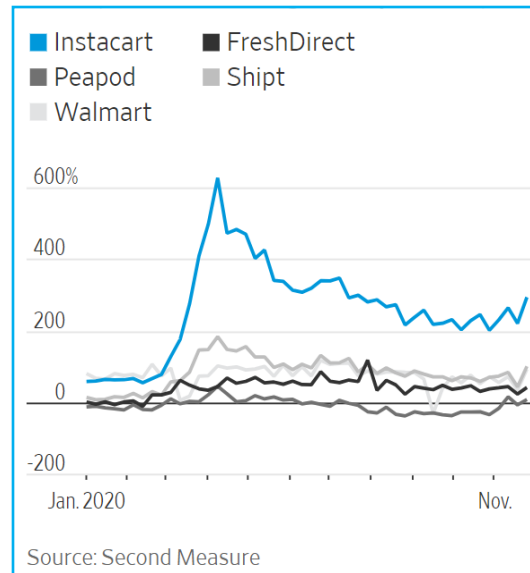
"We saw five years of growth in a matter of five weeks," Mehta said. "And the growth has continued. We grew over 300% year-on-year," he added (**Exhibit II**). Online grocery business had increased to 10% of the grocery industry, more than triple of what it was at the end of 2019. During the initial two months of panic buying during the pandemic, Instacart was delivering more food than Walmart, according to data firm Second Measure. It was second only to Amazon. The number of grocery chains that Instacart served increased by 60%; there were 500,000 shoppers shopping at more than 45,000 stores across the U.S. and Canada and revenues had reached \$1.5 billion.¹⁹ (**Annexure I**).

¹⁷ "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", *op.cit.*

¹⁸ Acosta Gina, "The Predictable Rise of Instacart", <https://progressivegrocer.com/predictable-rise-instacart>, October 9th 2020

¹⁹ "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", *op.cit.*

Exhibit II
Instacart's year-on-year Growth



Source: Kang Jaewon, "Instacart Looked Like a Savior. Now Stores Aren't So Sure.", <https://www.wsj.com/articles/instacart-looked-like-a-savior-now-stores-arent-so-sure-11609151401>, December 28th 2020

To keep pace with rising demand, every part of the Instacart business had grown, 'from the number of its retailer customers to the size of its Instacart Care team to the breadth of its CPG (consumer packaged goods) partners (now more than 1,000 brands)' and also its large army of 'shoppers,' more than half of whom were hired since the pandemic outbreak.²⁰ An investor presentation revealed that Instacart was grossing more than \$3 per order by mid-2020, compared to a loss of more than \$2 per order at the start of 2019. In 2015, it was losing nearly \$15 per order. Ever since the pandemic started, Instacart had registered three consecutive quarters of positive cash flow (going by its EBITDA).²¹ Its first profitable month since its founding in 2012 occurred in April 2020. During the year 2020, the company had raised nearly \$500 million, for a valuation of \$17.7 billion. Instacart was expected to launch an initial public offering (IPO), although it had not revealed the timing.²² A significant risk concerning Instacart's growth,

²⁰ "The Predictable Rise of Instacart", op.cit.

²¹ "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", op.cit.

²² "Instacart Looked Like a Savior. Now Stores Aren't So Sure.", op.cit.

however, was that a large portion of customers could return to buying their own groceries once the pandemic ceased.²³

Instacart sought to be the 'perfect partner for supermarkets', who were looking to break into e-commerce. Instacart's technology proved to be the saviour for grocery chains that had not yet created online shopping options for their customers.²⁴ Supermarkets that were traditionally tech-averse were transforming into digital fulfillment units that stocked and packaged groceries for pickup or delivery. For customers who ordered \$35 or more, Instacart charged as much as \$9 per delivery. For those with an annual \$99 subscription, the delivery was free. Instacart also charged grocers, who paid an average of more than 10% per order. This seemed quite a difficult proposition in the grocery industry, where net margins historically averaged 2% or less. Mehta justified the high fees saying it was necessary to employ a large number of Instacart engineers, designers and technicians who were working hard 'to turn a purely physical transaction into an almost entirely virtual one'.²⁵

Instacart did not have any physical assets such as warehouses, stores, freezers, or delivery trucks. It also avoided over hiring and used contract workers as shoppers. All these helped Mehta overcome the problems that had plagued Webvan²⁶, the dot-com-era grocery firm that had gone bust. What it did have though, was the intellectual property that powered its app and the people who maintained it. While the brick-and-mortar infrastructure was paid for by supermarkets, Instacart's shoppers paid for their own transportation and their own health care. This operating model had helped Mehta raise funding from

²³ "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", *op.cit.*

²⁴ "Instacart Looked Like a Savior. Now Stores Aren't So Sure.", *op.cit.*

²⁵ "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", *op.cit.*

²⁶ Webvan was an online grocery delivery service that operated between mid-1999 and mid-2001, when it ceased operations. Some of the main reasons for its failure was huge infrastructure investments and over hiring.

blue-chip investors that included Andreessen Horowitz, Sequoia and Khosla Ventures. Mehta was estimated to hold a 10% stake in the firm, making him a billionaire.

“Apoorva has cracked the code on one of the most operationally complex industries to ever come online. Where others have failed, he has created a sustainable, successful same-day delivery model that allows customers to shop from the same local grocers that they’ve loved for generations,” said billionaire Marc Andreessen, whose VC firm had first bet on Instacart.²⁷ According to Instacart, shoppers and retailers made up two sides of what it called a ‘four-sided marketplace’ business model. The other two sides included its consumers and the CPG brands. Instacart also built apps and websites on behalf of the company’s retail partners such as Wegmans Food Markets and Heinen’s, through its Enterprise business. “It’s not just about delivery anymore. We’re constantly trying to find new ways that we can add value as a chief ally to our partners and believe we can by building the technical e-commerce infrastructure for retailers big and small,” Ganenthiran noted.²⁸

Over the years, Instacart had added services such as suggesting replacements for out-of-stock items based on customer preferences and allowing consumers to communicate directly with Instacart shoppers.²⁹ In addition to groceries, Instacart had expanded its services to include alcohol and prescription delivery (Costco), beauty (Sephora) and even general merchandise (Big Lots).³⁰ The company also planned to expand its Instacart Meals program³¹, first launched with Publix, across more retailers.³²

²⁷ “Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?”, *op.cit.*

²⁸ “The Predictable Rise of Instacart”, *op.cit.*

²⁹ “Instacart Looked Like a Savior. Now Stores Aren’t So Sure.”, *op.cit.*

³⁰ “The Predictable Rise of Instacart”, *op.cit.*

³¹ A product that powered easy ordering, delivery and pickup of made-to-order food in as fast as an hour.

³² “The Predictable Rise of Instacart”, *op.cit.*

Instacart further expanded its delivery business, entering into partnerships with Walmart and 7-Eleven³³ to offer same-day delivery. Meanwhile, Instacart was overhauling the entire process of how it hired, trained and onboarded shoppers, 'from background checks, to converting physical ID cards to digital cards, to recruiting efforts via social media and referrals. Ganenthiran said that the company had prioritized safety and training programs that helped shoppers 'be ready to pick the perfect avocado'. Shoppers now had an exclusive 'super-app' to help them navigate grocery stores to locate products easily and then reach a customer's home. Instacart was also working in tandem with retailers to optimize e-commerce fulfillment operations in-store.

Instacart gave retailers access to a lot of data science modelling, which helped them save time on the picking process, thus saving costs. It focused on delighting customers, and it was with this goal that the company expanded its customer service team, early in the pandemic, from 1,200 to 18,000 agents. Instacart had decided not only to overstaff its customer service department, but also 'overtrain' them, 'to make the customer happy, no matter what'. Ganenthiran opined that the American consumer was fickle. According to him, "the American customer will want groceries delivered some of the time, will want to go into the store some of the time and will want to pick up their groceries some of the time." He added that all three modes were important, and despite increasing competition from players such as Uber, DoorDash, Shipt and Amazon, 'Instacart's value proposition will remain helping grocers win in e-commerce'.³⁴

Will Instacart be Able to Sustain for the Long Term?

Instacart's growth, however, was not without challenges. During the peak of the early pandemic, contract shoppers publicly protested demanding 'more protective gear and \$5-per-order hazard pay'. Instacart

³³ 7-Eleven was its first national convenience store retail partner.

³⁴ "The Predictable Rise of Instacart", op.cit.

responded by distributing safety kits and offering expanded paid sick leave and free telemedicine visits for exposed workers.³⁵ Instacart was also facing uncertainty in California over classification of its gig workers. The company, along with Uber, Lyft and DoorDash, had backed the ballot measure Prop 22³⁶.³⁷ After the ballot was passed, Instacart said that it was increasing its service fees in California from 5% to 8% to cover the cost of driver benefits under Prop 22. The cost increase would, however, not apply to its monthly or annual subscription service customers. Commenting on this, Veena Dubal, a professor at the University of California, argued that gig companies were 'using driver benefits as a pretext to raise prices in their quest to make a profit'. "Customers have been experiencing artificially low prices because of venture capital subsidies. We've known for a long time that service fees were going to have to go up because the entire business model is based on capturing the market, addicting consumers to the service and then raising fees," she said.³⁸ Although the ballot had been passed, a California judge ruled that the controversial Prop 22 was unconstitutional. The coalition representing the gig economy companies said that it had planned to appeal. The litigation was ongoing.³⁹

The biggest battle though for Mehta, was to win the trust of retailers. Instacart's most valuable asset was its relationship with grocers. More grocers were becoming increasingly skeptical of the control Instacart was gaining over their customers. Stew Leonard Jr. (Leonard), who managed his family-owned popular grocery chain, said that while Instacart helped his business grow, it also held control over the data from the orders that it fulfilled. Leonard said that through interactions on the website, one could learn more

³⁵ "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", *op.cit.*

³⁶ Under Prop 22 (Proposition 22), the companies could continue to treat gig workers as independent contractors while granting some benefits and concessions, but not the full suite of protections that workers would have got had the measure not passed.

³⁷ "The Predictable Rise of Instacart", *op.cit.*

³⁸ Sandler Rachel, "Every Major Gig Company Has Now Raised Prices In California After Prop. 22", <https://www.forbes.com/sites/rachelsandler/2021/02/19/every-major-gig-company-has-now-raised-prices-in-california-after-prop-22/?sh=7f3c53332d7c>, February 19th 2021

³⁹ O'Brien Sara and LeBlanc Paul, "California judge rules gig worker initiative utilized by Uber and Lyft is unconstitutional", <https://edition.cnn.com/2021/08/20/politics/california-proposition-22-uber-lyft/index.html>, August 21st 2021

about customers and the information thus gathered could be used to send targeted promotions and ads. "There's a lot of competitors now, and we're talking to two of them that will offer everything Instacart offers, and you own 100% of the data," he said. Instacart defended itself saying that "Stew Leonard's and all its partners already have access to plenty of data—if customers agree to share it..." Instacart also said that it was launching a new portal that would allow retailers to access even deeper analytics.

Erewhon, an organic grocer in Southern California patronised by celebrities, had taken an even tougher stance. "We used to literally have Instacart on our homepage. I don't do that anymore. We'd rather own our customer, because once they go to that Instacart platform, they're an Instacart customer," said Tony Antoci, Erewhon's owner. Although Antoci credited Instacart with creating a 'tremendous' amount of business for his store, he had launched his own delivery service, nearly a month after the pandemic struck. For nearly six years he felt that he was constantly competing with Instacart.⁴⁰

Some supermarkets said that they were not making any profits by partnering with Instacart for food delivery. "We don't think we make money from an Instacart order," said Mark Skogen (Skogen), CEO of Skogen's Foodliner Inc.⁴¹, which was offering Instacart delivery services a year since. The retailer however continued to work with Instacart because it helped it earn higher revenues. Thomas Horne (Horne), a senior e-commerce manager at the Associated Food Stores⁴², said that so far it had used DoorDash partly because of the lower commission rate of about 9% per order. He said that Instacart's rate was higher, although the rate varied by retailer. Horne was considering using Instacart.

⁴⁰ "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", *op.cit.*

⁴¹ It operated more than 30 stores under its Festival Foods brand.

⁴² A Salt Lake City-based cooperative of more than 400 stores.

In order to retain more control, some retailers had not outsourced their entire e-commerce business. For instance, Kroger, the biggest grocer in the U.S., managed pickup orders with its own staff. The company also encouraged customers to order through the Kroger website, rather than Instacart's, by 'offering digital coupons and fuel savings at Kroger gas stations' for its loyalty program members. On a recent earnings call, Kroger executives described Instacart as a big partner and said that they were always looking for more delivery partners.⁴³

"We're not trying to take away their customers," Mehta said. He insisted that Instacart did not have any plans to ever sell groceries directly unlike DoorDash, which had its own warehouses. Instacart was also actively hiring dedicated analysts who would be located in the headquarters of its retail partners, in order to support them. It already had its data analysts at three of North America's 10 largest chains. "One of the main reasons why retailers work with us and not with Amazon is because Amazon has not treated retailers as well... That is not lost on us at all," Mehta said.⁴⁴

Ganenthiran pointed out that Instacart was committed to promoting retailers through its Enterprise offering.⁴⁵ However, Joel Warady, a former Mondelez brand executive, was skeptical of Instacart's Enterprise business, which built and operated grocer websites and ran ads for food products, digging deeper into their digital business. "They have let the fox into the henhouse...The more [grocers] partner with Instacart, the more vulnerable they might become. If I was a retailer, this would really scare me," he said. More than 175 retailers, including Wegmans, Food Lion, Costco Canada and The Fresh Market, were using Instacart to power their websites.

⁴³ "Instacart Looked Like a Savior. Now Stores Aren't So Sure.", *op.cit.*

⁴⁴ "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", *op.cit.*

⁴⁵ "The Predictable Rise of Instacart", *op.cit.*

While some grocers were wary of Instacart, others offered it 'full-throated support'. Among them was Danny Wegman (Wegman), the CEO of Wegmans.⁴⁶ The Save A Lot⁴⁷ chain joined Instacart in the summer of 2020 because 'the service was quick and easy to implement', said Chris Hooks, its Chief Merchandising Officer. He said that 'Save A Lot views Instacart as a way to appeal to existing and potential customers'.⁴⁸ Early adopters of Instacart's platform, which included big companies like Hormel and fast-growing startups like Utah-based JoJo's Chocolate, were also realizing huge returns. "Instacart has become a really important source for us to allocate marketing spend, because it's just incredibly effective at connecting that dollar to that sale," said Eat Just founder and CEO, Josh Tetrick. His sales of vegan eggs on Instacart had grown sixfold in 2020. "We're always cranking it up on Instacart," he added.⁴⁹

A study by analyst Dr. Robert Kulick⁵⁰ showed that the 'Instacart Effect' created 'additional customer demand for grocery stores' and 'increased retail grocery employment.' "These findings demonstrate that Instacart has played an important role in helping the grocery industry compete in a challenging economic environment. It is often assumed that disruptive innovations necessarily displace traditional modes of commerce and employment. However, with Instacart, the opposite is true. While Instacart is changing the way customers interact with grocery stores, it is an example of how innovation can benefit industries and their workers," he said.⁵¹

Some retailers used Instacart, besides their own e-commerce platforms, for a wider reach of its shopper base. According to NielsenIQ's e-commerce data, Instacart's shoppers were more affluent and spent more

⁴⁶ "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", *op.cit.*

⁴⁷ A Midwest grocer that operated more than 1,000 stores.

⁴⁸ "Instacart Looked Like a Savior. Now Stores Aren't So Sure.", *op.cit.*

⁴⁹ "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", *op.cit.*

⁵⁰ From N.Y. based NERA Economic Consulting.

⁵¹ Acosta Gina, "How Instacart Drives Grocery Growth", <https://progressivegrocer.com/how-instacart-drives-grocery-growth>, December 2nd 2020

online compared with shoppers on other online platforms. Natalie Williams (Williams), VP of Product Leadership at NielsenIQ, highlighted a few points of caution to the retailers. She warned of retailers ceding control over their customer relationships and data to a third party, leading to a misalignment with the retailer's broader digital strategies. She pointed to the example of Toys 'R' Us and Borders, which handed over their e-commerce capabilities to Amazon. By the time these retailers built their own e-commerce offerings, they lagged competitors and eventually succumbed to bankruptcy.

Williams also warned that at a time when Instacart's growth reached a point of diminishing returns, they would develop a way to fulfill orders themselves, seeking greater profitability. "Shopping physical retail stores and delivering groceries to homes is a negative-margin business today. Profits come in optimizing the efficiency of online grocery fulfillment through dark stores and automation," she indicated. Leveraging its data on shopper behaviour and consumer demand, Instacart could eventually eliminate the retailer, and service the customer directly at a much lower cost.⁵²

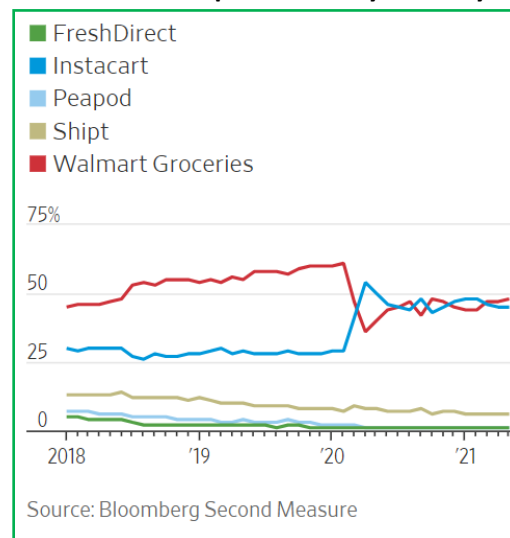
Competition was also heating up. Amazon Fresh was a force to be reckoned with⁵³ and Walmart Grocery was closing the gap with Instacart (**Exhibit III**). As of June 2021, Walmart Grocery handled 48% of grocery delivery sales and Instacart handled 45%. Uber and DoorDash too were rapidly expanding their grocery delivery services. In a bid to achieve profitability, Instacart announced that it would begin opening micro-fulfillment centres in partnership with retail grocers to handle online sales. The company would also partner with Fabric to provide software and robotics to the facilities over the following 12 months (2021-'22).⁵⁴

⁵² "Instacart: The good, the bad, and the ugly for grocery retailers", op.cit.

⁵³ "Can Instacart reconfigure America's grocery wars?", <https://www.economist.com/business/2021/08/14/can-instacart-reconfigure-americas-grocery-wars>, August 14th 2021

⁵⁴ "Walmart Reigns In Grocery Delivery Wars, But Instacart Is Pushing Hard", <https://finance.yahoo.com/news/walmart-reigns-grocery-delivery-wars-185748669.html>, July 24th 2021

Exhibit III
Market Share of Some Popular Grocery Delivery Companies



Source: Forman Laura, "Instacart Wants to Be an Influencer in Food Delivery", <https://www.wsj.com/articles/instacart-wants-to-be-an-influencer-in-food-delivery-11626260400#>, July 14th 2021

Meanwhile, Mehta was building an advertising platform which he said made Instacart 'as much of an alternative to Facebook as it is to Amazon'. "Facebook and Google have done such a wonderful job landing people on others' websites. The fact that we have a grocery-focused ad business is something very few companies have ever built," Mehta said. He hit upon this after long hours of brainstorming with his former CFO Ravi Gupta⁵⁵ (Gupta). "We don't want customers to be charged more, but we want to earn more revenue. We don't want retailers to be charged more, and we want to earn more revenue. How does that happen?" said Gupta, recalling their thought process. By the end of 2020, Instacart users were clicking on more ads every day than they did during the whole of 2019.⁵⁶ Although Instacart continued to be a private company and disclosed limited financials, its advertising business had generated nearly \$300 million⁵⁷ (in

⁵⁵ Gupta had left Instacart in 2019 to join Sequoia, the VC shop that invested in both Instacart and DoorDash.

⁵⁶ "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", op.cit.

⁵⁷ A fifth of its revenues.

2020), and it had set a target to reach \$1 billion by 2022.⁵⁸ Mehta however would need to convince grocery chains that ads on Instacart would not cut into their margins. Food companies had limited advertising budgets and some of this was apportioned to grocers for in-store promotions and shelf placement. A portion of their nearly \$225 billion annual ad spend was now being diverted to Instacart.⁵⁹

Until recently, the \$1.5 trillion consumer-goods industry was unable to target shoppers directly as they shopped for groceries. Now, as customers shopped online, ads could be effectively targeted, giving more value for ad spends.⁶⁰ Ads were also an attractive business with high margins that could provide alternate revenue streams, if growth slowed in other areas. For instance, Facebook, which had an ad-dominant business model, recorded a gross margin of more than 80% (in 2020), compared with DoorDash's overall gross margin of just over 50%. Restaurant-delivery platforms such as DoorDash were struggling to sustain their profits, although their revenues were soaring. As delivery companies were shifting their focus from growth to profits, they were eagerly pursuing advertising. Uber Eats launched its first advertising format in sponsored listings in 2020 and said that it was targeting \$100 million for its ad business in 2021.⁶¹

Instacart offered a self-service ad platform that allowed brands to reach customers by creating and managing featured product campaigns. Full-service display options were also available, where brands could book ads directly with Instacart. It also offered different ad types and promotions such as Instacart Coupons, Hero Banners and Delivery Promotions.⁶² Instacart added a new feature called 'Product Library,' which allowed brands to edit how their products appeared on the platform and allowed them to maintain

⁵⁸ Forman Laura, "Instacart Wants to Be an Influencer in Food Delivery", <https://www.wsj.com/articles/instacart-wants-to-be-an-influencer-in-food-delivery-11626260400#>, July 14th 2021

⁵⁹ "Instacart Survived Covid Chaos — But Can It Keep Delivering After The Pandemic?", *op.cit.*

⁶⁰ "Can Instacart reconfigure America's grocery wars?", *op.cit.*

⁶¹ "Instacart Wants to Be an Influencer in Food Delivery", *op.cit.*

⁶² Johnson Tara, "Instacart Ads: Everything You Need to Know", <https://tinuiti.com/blog/retail-media/instacart-ads/>, June 17th 2021

consistency in their brand voice. While Google, Facebook and Amazon were dominating as advertising platforms for brands, Instacart was slowly catching up.⁶³ Instacart also announced a \$1 million fund to promote 'Black-owned consumer packaged goods brands' across its marketplace. More than 2,500 brands were already using Instacart's self-service ad platform.⁶⁴

On August 2nd 2021, Fidji Simo (Simo) became the Chief Executive of Instacart.⁶⁵ In her previous stint with Facebook, Simo had led the launch of ads on Facebook's News Feed and the monetization of mobile ads for the platform. Over the last two years, Instacart had hired three high-profile executives from Amazon and Google for its advertising business.⁶⁶ On the job, Simo hoped to bring Facebook-like targeted advertising to Instacart's grocery-shopping experience. She was also on a mission. 'Most of her top executives, 70% of her contract workers and four-fifths of her customers' were women. The executive tilt is 'absolutely strategic', she claimed. Simo was expected to lead Instacart's initial public offering that was likely to value Instacart higher⁶⁷ than most American supermarkets. To justify such a valuation, Simo had to find ways of showing profitability at Instacart while not alienating its supermarket partners. Instacart's high valuation also implied that investors believed that either 'Instacart will displace its supermarket partners in the years ahead, or that it will become a high-margin digital-ads business'. With Instacart's ad sales growing at triple-digit rates, Simo insisted that it would be the latter.

⁶³ Waters Michael, "Instacart is courting CPG brands by giving them more control over product display", <https://www.modernretail.co/platforms/instacart-is-courting-cpg-brands-by-giving-them-more-control-over-product-display/>, June 16th 2021

⁶⁴ Redman Russell, "Instacart ad program highlights Black-owned CPG brands", <https://www.supermarketnews.com/online-retail/instacart-ad-program-highlights-black-owned-cpg-brands>, June 10th 2021

⁶⁵ "Can Instacart reconfigure America's grocery wars?", op.cit.

⁶⁶ "Instacart Wants to Be an Influencer in Food Delivery", op.cit.

⁶⁷ Recently, Instacart was valued at \$39 billion, which was higher than that of Kroger. Kroger's revenues, however, was at \$132bn in 2020 compared to that of Instacart's at \$1.5bn.

Already thin supermarket margins were decreasing, according to Bain consultancy, making it difficult to accommodate delivery costs. Additionally, consumers were becoming increasingly price-sensitive and cost-consciousness, leading to a drop in year-on-year grocery-delivery sales.⁶⁸ More Americans were leaving their homes for grocery shopping. Online grocery sales fell 24% from January through June 2021, according to Bloomberg Second Measure.⁶⁹ Simo, however, was optimistic as she foresaw plenty of growth ahead. The growth would be further supported by automation. Through its recent deal with Fabric, the Israeli firm, Instacart would build 'small-scale robotic warehouses attached to its partners' supermarkets'. Instacart would also increase its efforts to earn the support of its customers and employees. While one tactic was to leverage 'the female perspective', mainly because women did most of the grocery shopping, another could be to make online shopping more entertaining.⁷⁰ With e-commerce gaining traction, retailers were adopting 'shoppertainment' to engage with their customers through in-app gamification, video streaming and live streaming.⁷¹

While Instacart had proved that it could achieve growth by being nimble, the real challenge in the long term was how Instacart could be profitable and a sustainable business.⁷² A number of questions remained. Would shoppers welcome a blizzard of ads as they perused virtual aisles? How would Instacart be able to maintain its relationship with supermarkets? Who would reap the most rewards from the ad bonanza? Simo insisted that the benefits would be shared between Instacart and its partners. With many of America's big supermarkets building their own online platforms to rely less on Instacart, the fight had just begun.⁷³

⁶⁸ "Can Instacart reconfigure America's grocery wars?", *op.cit.*

⁶⁹ "Walmart Reigns In Grocery Delivery Wars, But Instacart Is Pushing Hard", *op.cit.*

⁷⁰ "Can Instacart reconfigure America's grocery wars?", *op.cit.*

⁷¹ "Shoppertainment: A Wave of Change for the Retail Industry", <https://industrywired.com/shoppertainment-a-wave-of-change-for-the-retail-industry/>, January 25th 2021

⁷² "The Predictable Rise of Instacart", *op.cit.*

⁷³ "Can Instacart reconfigure America's grocery wars?", *op.cit.*

Annexure I
Instacart's Key Statistics

Instacart Revenue

Year	Revenue
2013	\$10 million
2014	\$75 million
2015	\$120 million
2016	\$185 million
2017	\$300 million
2018	\$525 million
2019	\$735 million
2020	\$1,500 million

Instacart profit

Year	Profit
2019	(\$300 million)
2020	\$50 million

Instacart users

Year	Users
2017	3.3 million
2018	4.3 million
2019	5.5 million
2020	9.6 million

Instacart partners

Year	Partners
2017	165
2018	210
2019	300
2020	600

Note: Partners refers to retail and grocery companies that operate on Instacart.

Instacart valuation

Year	Valuation
2016	\$2 billion
2017	\$3.4 billion
2018	\$7.6 billion
2020	\$13.7 billion
2021	\$39 billion

Instacart cities available

Year	Cities available
2016	25
2018	4,000
2020	5,500

Source: Curry David, "Instacart Revenue and Usage Statistics (2021)",
<https://www.businessofapps.com/data/instacart-statistics/>, July 24th 2021