Instacart: The Grocery of the Future

University of Rochester – Simon Business School

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Question

- How can Instacart manage issues with partners and employees while increasing its top line revenue?

Our Recommendation

Adjust business model to focus on advertising revenue and eliminate commissions.

Retain gig workers and expand benefits in short term, invest in automation in long term.

Competitive Forces: 2020

- Threat of Substitutes: Low
- Threat of New Entrants: Low
- Bargaining Power of Suppliers: Low
- Bargaining Power of Customers: Low
- Competitive Rivalry: Moderate

Is this sustainable?

- Online grocery sales dropped 24% from Jan to Jun '21.

Competitive Forces: 2023?

- Threat of Substitutes: High
- Threat of New Entrants: High
- Bargaining Power of Suppliers: High
- Bargaining Power of Customers: High
- Competitive Rivalry: High

Instacart's Four-Sided Marketplace Business Model

Employees (Shoppers)

Retailers

Consumers

CPG

SWOT

Strengths: User Interface, Convenience, Quick Delivery, Many Partners

Weaknesses: High price, easily replicable model

Opportunities: 45% of Market Share, Only 9.6M Active Users

Threats: Competitors, Less COVID-19

Business Model Concerns

1. Revenue Generation
2. Retailer Partnership
3. Employee Relations

Overall Recommendation

1

Focus on Advertising

2

Eliminate Commission

3

Expanded Benefits for Gig Workers and Long-term Automation

Revenue Generation - Evaluation Criteria

- Potential Revenue– How much revenue can potentially be generated with the proposed plan?
- Customer Experience – Will our recommendation continue to maintain our high level of customer experience?
- Strategy Alignment – How does the recommendation align with Instacart's overall strategy?

Revenue Generation

Criteria	Focus on Advertising	Focus on Commissions
Potential Revenue	High	Moderate
Customer Experience	Moderate	Low
Strategy Alignment	High	Moderate

Implementation for Focus on Advertising

"Advertise the advertisements" to the consumer-goods industry

Invested $4.7 billion
in advertising in the US

Invested $2.4 billion
in advertising in the US

Invested $1.74 billion
in advertising in the US

How much are Big Tech companies advertisement revenues

$84.2 Billion

$146.92 Billion

$15.73 Billion

Retailer Partnership- Evaluation Criteria

- Retailer relationship– How Instacart can build and maintain strong relationships with its partners?
- Customer Experience – Will our recommendation continue to maintain our high level of customer experience?
- Strategy Alignment – How does our strategy work with our value proposition of helping grocers win in e-commerce?

Retailer Partnership – Alternatives and Recommendation

	Eliminate Com mission	Offer Deep Data Analytics to Grocers
Retailer Relationship	High	High
Customer Experience	High	Moderate
Strategy alignment	High	Low

Implementation of Retailer Partnership

Gradually reduce and eventually eliminate commission to position itself as a solid partner not as a competition to grocers

→

Charge subscription fee to grocer to use Instacart platform

Employee Relations - Evaluation Criteria

- Operational costs – How will this affect our day-to-day operations and bottom line?
- Public relations and litigation risk - What is society's perception of our business model?
- Strategy alignment – How much does this align to the our overall strategy?

Employee Relations

Short term

Provide increased benefits to current gig workers

Long term

Increase automation and permanently expand benefits program

Employee Relations

Criteria	Contractors / gig workers	Full time employees	Automation
Operational costs	Moderate	High	Low
PR and litigation risk	High	Low	Moderate
Strategy alignment	High	Moderate	Low

Implementation for employee relationship

Immediate

Expand key benefits in security and health. (Quick wins)

Assess primary, concentrated markets for automation

<1 Year

Develop enhanced contractor employee relationship programs and performance evaluation

1-2 years

Review expanded benefits performance and implement adjustments

Deploy automation in primary, concentrated markets.

2> Years

Establish permanent contractor benefits and evaluation program

Continue automation efforts

Timeline

Now

-Improve advertising effectiveness with targeting
-Prepare grocery partners for shift of fee model
-Expand network
-Increase employee benefits

1 Year

-Begin shift from commission to subscription model
-Continued network expansion
-Begin to deploy automation in concentrated networks

2 Years

-Complete shift of fee model
-Continued network expansion
-Permanent benefits and further automation

5 Years

-Instacart is a household name

Risks and Mitigation

- Customers may not be receptive of the advertisements being shown on the app
- Grocery retailers may still request more data from us.
- Public perception and government regulation disrupt the contractor employee model

- Focus on high-quality targeted advertisements.
- Offer aggregated data to retailers at a fee.
- Implement expanded benefits program that tackle key issues of current approach

Conclusion

Revenue Generation:	Advertising
Retailer Partnership:	Eliminate Commissions
Employee Relations:	Expanded Benefits for Gig Workers and Automation

Thank you!

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Appendix – Gig worker turnover

INSIDER

Many ride-share drivers who use services like Uber, Lyft, Postmates, and Amazon Flex do not stick to an app for longer than a few months, The Journal reports. While service-sector jobs typically have high employee turnover rates, some gig economy startups could have turnover as high as 500% per year, compared to the fast-food industry turnover rate of 150% in 2017.

Appendix – Cost of FT benefits

NEWS RELEASE

BUREAU OF LABOR STATISTICS

U. S. DEPARTMENT OF LABOR

For release 10:00 a.m. (ET) Thursday, December 16, 2021 USDL-21-2146

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(NOTE: This news release was reissued on December 17, 2021, correcting data in table 4, see www.bls.gov/errata.)

EMPLOYER COSTS FOR EMPLOYEE COMPENSATION – SEPTEMBER 2021

Employer costs for employee compensation for civilian workers averaged $39.55 per hour worked in September 2021, the U.S. Bureau of Labor Statistics reported today. Wage and salary costs averaged $27.35 per hour worked or 69.1 percent of total compensation, while benefit costs were $12.20 or 30.9 percent of total compensation. (See chart 1 and table 1.)

Private industry worker compensation costs for employers averaged $37.24 per hour worked in September 2021. Wage and salary costs averaged $26.36 and accounted for 70.8 percent of employer costs, while benefit costs averaged $10.88 and accounted for 29.2 percent of total compensation. (See chart 1 and table 1.)