

# INSTACART

The No. 1 growth  
company of 2020.

The PrivCo  
50



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# EXECUTIVE SUMMARY

**I**nstacart is recognized as the No. 1 growth company in the 2020 Q4 PrivCo 50 report. The company operates in the grocery delivery market and leverages gig economy “shoppers” to deliver goods which are purchased by its customers through its proprietary shopping platform and mobile app. Founded in 2012 in San Francisco, California, by former Amazon engineer Apoorva Mehta as well as his friends Brandon Leonardo, and Max Mullen, the company idea came out of Mehta being a participant of Y Combinator's Summer 2012 batch.

Instacart's success in 2020 is directly correlated to the COVID-19 pandemic. Because families were forced to quarantine and feared contraction of the deadly virus by being in public places, the demand for a personal shopper to get essentials such as groceries on a customers' behalf saw a spike at the end of February 2020. Over the course of the next few weeks, the demand ballooned and by April, the company had finally moved into the red. Within the fifth week of lockdown, Instacart had already reached its 2022 company goals.

However, Instacart's business depends on three components—the previously mentioned customer demand as well as its partners where the products are purchased from, and its shoppers who make the purchases. While demand for the platform's service increased overnight as a result of the pandemic, the ability for the company to react by increasing its hire of shoppers as well as expand its partners has and perhaps will play a role for its continued success amongst the competi-

tion. Currently, 85% of U.S. households have access to Instacart delivery, with 500 national, regional, and local retailers that deliver from 40,000 stores across 5,500+ cities across North America. Also boosted by the pandemic and high unemployment rates, Instacart hiring spree has been readily plished, allowing it to increase its registered shoppers from under 100,000 at the end of 2019 to an estimated 750,000 to prepare for year end shopping.

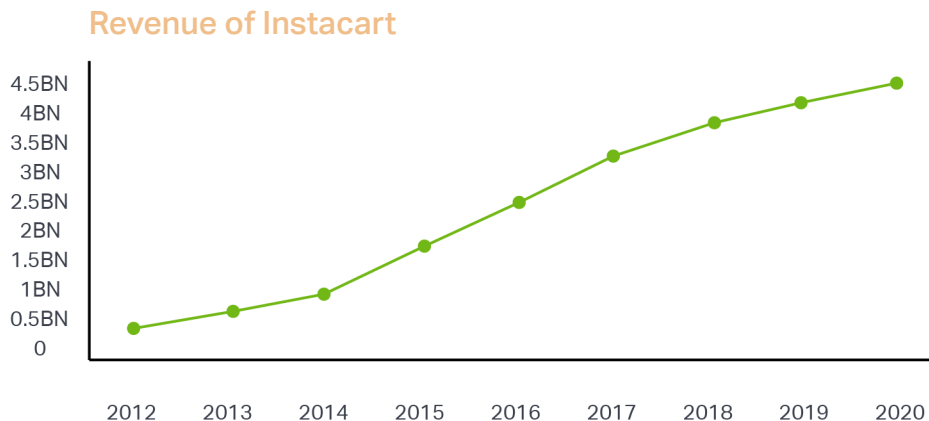
While the biggest external factor for Instacart's success was unfortunately a deadly virus, another monumental win that is a bit more harmless is the passing of Proposition 22 in California this year. Being able to continue to classify shoppers as independent contractors rather than employees will help sustain the Instacart business model.





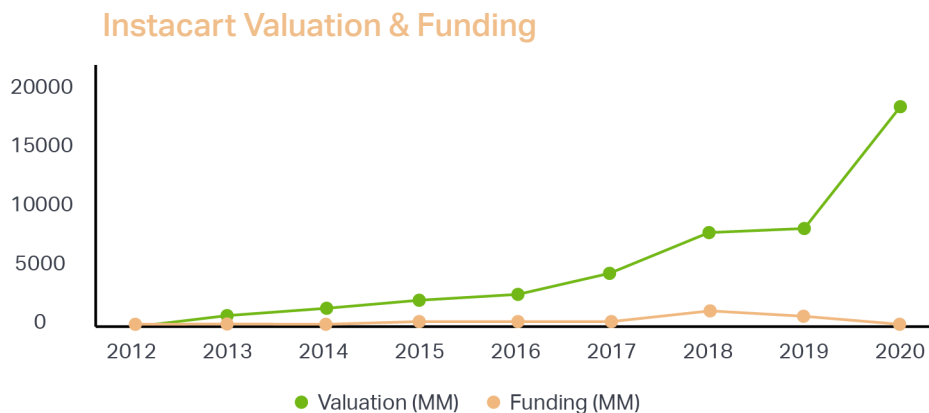
# SUCCESS IN NUMBERS

Instacart became an essential service overnight as millions of Americans were forced to lockdown at home. While other businesses, especially those focused on brick-and-mortar sales, only see 2020 as a year to skip, the grocery delivery company only managed success.



While the company has seen significant growth especially between 2016-2017 largely due to its partnership with Whole Foods Market before it was acquired by Amazon, 2020 has been the pivotal year for Instacart to move out of the red and land its first profit in April.

The rise in demand has allowed it to receive three rounds of funding in 2020, doubling its valuation from \$7.9BN at the beginning of the year to \$17.7BN after its last \$200MM funding. Notably, its latest October funds were from Valiant Capital and D1 Capital who revisited and topped up on their previous investment.



Aside from external factors that generated increasing demand, Instacart internally also stepped up to the challenges of an overwhelming demand. In the past year, the company invested heavily into expanding partnerships, improving customer service, and retaining as well as increasing its personal shoppers to deal with demand.

# INSTACART'S BUSINESS MODEL

Instacart essentially is an on-demand grocery delivery platform that allows a customer to buy items sold from its partners on its platform, assign an independent contractor or "shopper" to make the purchase on the customers behalf at the store, pick it up, and deliver it to the customers door. It makes money through:

- Delivery fees for standard memberships
- Premium membership fees through an optional subscription service called "Instacart Express"
- Service Fees
- The difference of marked up prices from in-store prices
- Commission from partners

## Partnerships

While Instacart started out focused on grocery service, and is still branded as an online grocery delivery platform, it now offers access to 300,000+ items from a variety of stores—this includes wholesale outlets like Costco and Sam's Club, supermarkets like Safeway and Kroger, and pharmacies like CVS. But in 2020, their partnerships team has been hard at work to expand the things you can purchase which now include same-day delivery for beauty products from Sephora, pet goods delivery with Petco, alcohol delivery, meal orders, and more, by adding an additional 150 retailers to its portfolio this year.

## Extending Service into New Target Groups

Instacart knew when its demand rose that a lot of its users were new to online grocery shopping.

Customer service questions were bound to rise and the team needed to be reactive to that demand. It smartly increased its customer service team from 1,200 to a whopping 18,000 agents and also launched a Senior Support Service for older customers in response as online food ordering recorded an increase of 428% in the month of June for this 60+ age bracket. Aside from targeting seniors, Instacart has also extended their services to others in need piloting with discount supermarket chain Aldi to accept food stamps.

## Advantages of the Gig Economy

Instacart's ability to succeed though, lies in its ability to leverage the gig economy through its hired shoppers. Shoppers are essentially independent contractors hired to make a purchase for the customer and deliver it to the customers' homes. As demand for online shopping increased, Instacart has added 300,000 more shoppers in the first half of the year, compared to its hiring of less than 100,000 at the end of 2019. It is expected to reach 750,000 shoppers at the end of the year to prepare for holiday shopping

## Supply and Demand

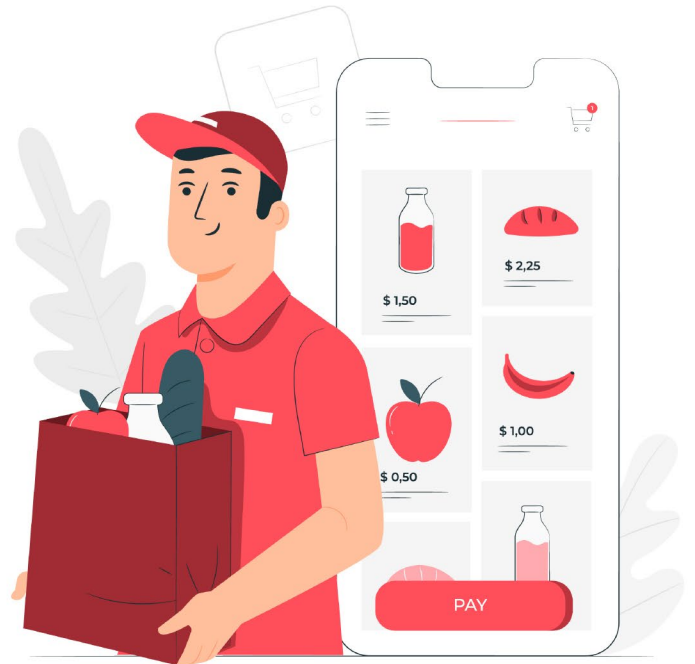
While this gig worker hiring spree is significant for the company's growth, there have been hurdles. The group called Gig Workers Collective organized a collective strike in March to demand Instacart supply proper COVID-19 preventative gear for shoppers, hazard pay as shoppers risked virus contraction, and addressing

# INSTACART'S BUSINESS MODEL

customers who performed 'tip-baiting' by adding a large tip in advance to bait a quick delivery only to reduce it after the delivery was processed. While Instacart has taken action including providing PPE and other sanitary equipment at various shops, support features such as contactless deliveries, and more strict control of its tipping system, it has also said the impact of the strike was low. This is mainly because the nation has been impacted by record high unemployment rates and the supply of people looking to make much needed money was readily available (250,000 people applied in the same week of the strike).





## Relief with Prop 22

For months, California state had scrutinized the classification of gig economy workers as independent contractors. The company can breathe a sigh of relief as Proposition 22 passed in the November election with the push from the major gig economy companies such as Uber, Lyft backing the ballot with more than \$200MM in funding to secure the vote. Had Prop 22 not been passed, Instacart would have had to classify its shoppers as employees including providing benefits such as health insurance, minimum wages, and more, thereby increasing its overhead costs for running the business.



# KEY COMPETITORS

There are a number of competitors in the delivery business, especially as Instacart is also diversifying into food and general goods delivery. The company also has to compete with a number of public companies that have their own grocery delivery, namely Amazon and its subsidiary Whole Foods Market.

	Key Product	Funding	Valuation	Other Notes
	Food Delivery	\$1.25Bn	Over \$3BN	Purchased BevMo in Nov 2020  Received \$380.00MM funding in Oct 2020 led by Accel Partners and D1 Capital Partners
	Grocery Delivery	\$409.63MM	Over \$1 BN	Acquired by Dutch based grocery giant Ahold Delhaize in November 2020.
	Grocery Delivery	\$65.20MM	Over \$1.5BN	Acquired by Target in Dec 2017
	Grocery Delivery	None	Over \$2.5BN	Acquired by Dutch based grocery giant Ahold Delhaize in August 2001.



# INDUSTRY OUTLOOK

As the nation continues to be on high alert with the pandemic as well as more new users having tested out the platform and service during this time, Instacart has established itself as a leader. And with enough voters supporting Proposition 22, Instacart has paved its way to how it can operate in other states as well, solidifying its business model.

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