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Instacart's delivery business slows as it heads toward its long-awaited IPO

Article

The news: While **Instacart**'s revenues rose over 30% year-over-year (YoY) to about $1.4 billion in the first half of 2023, its gross transaction volume grew just 5% YoY, per The

Information.

- The company's growth stemmed from its fast-growing retail media business, which our forecast expects will grow 43.8% YoY this year, as well as cost-saving strategies such as batching, in which its couriers deliver more groceries in fewer trips so that the company can keep more revenues from each order.
- It is questionable whether that growth model is sustainable, which is problematic given that Instacart executives may begin their IPO pitches to investors as early as next week, per Bloomberg.

How Instacart's results stack up: Instacart's slowdown in its core delivery business is a marked contrast with the 27% and 10% growth reported by **DoorDash**'s and **Uber**'s delivery services over the same period. While both those companies primarily provide restaurant delivery, they are rapidly growing their grocery businesses. For example, our forecast expects DoorDash to make $5.26 billion in online grocery sales this year, which is over nine times the $580 million it generated in 2020.

- While it is an apples-to-oranges comparison, Instacart's growth is also a far cry from the 24% ecommerce growth that **Walmart** reported in Q2. As the largest grocer in the US, Walmart has made a strong push to grow membership in its Walmart+ program to drive more consumers to order groceries online. Our forecasts expect the number of households with Walmart+ membership will grow 10.4% this year and its grocery ecommerce sales will soar 44.6% this year.
- Meanwhile, several other retailers are also making investments to grow their direct-to-consumer ecommerce grocery (and more) businesses. For example, both **Target** and **Costco** are testing supersized stores that dedicate large spaces for ecommerce fulfillment.

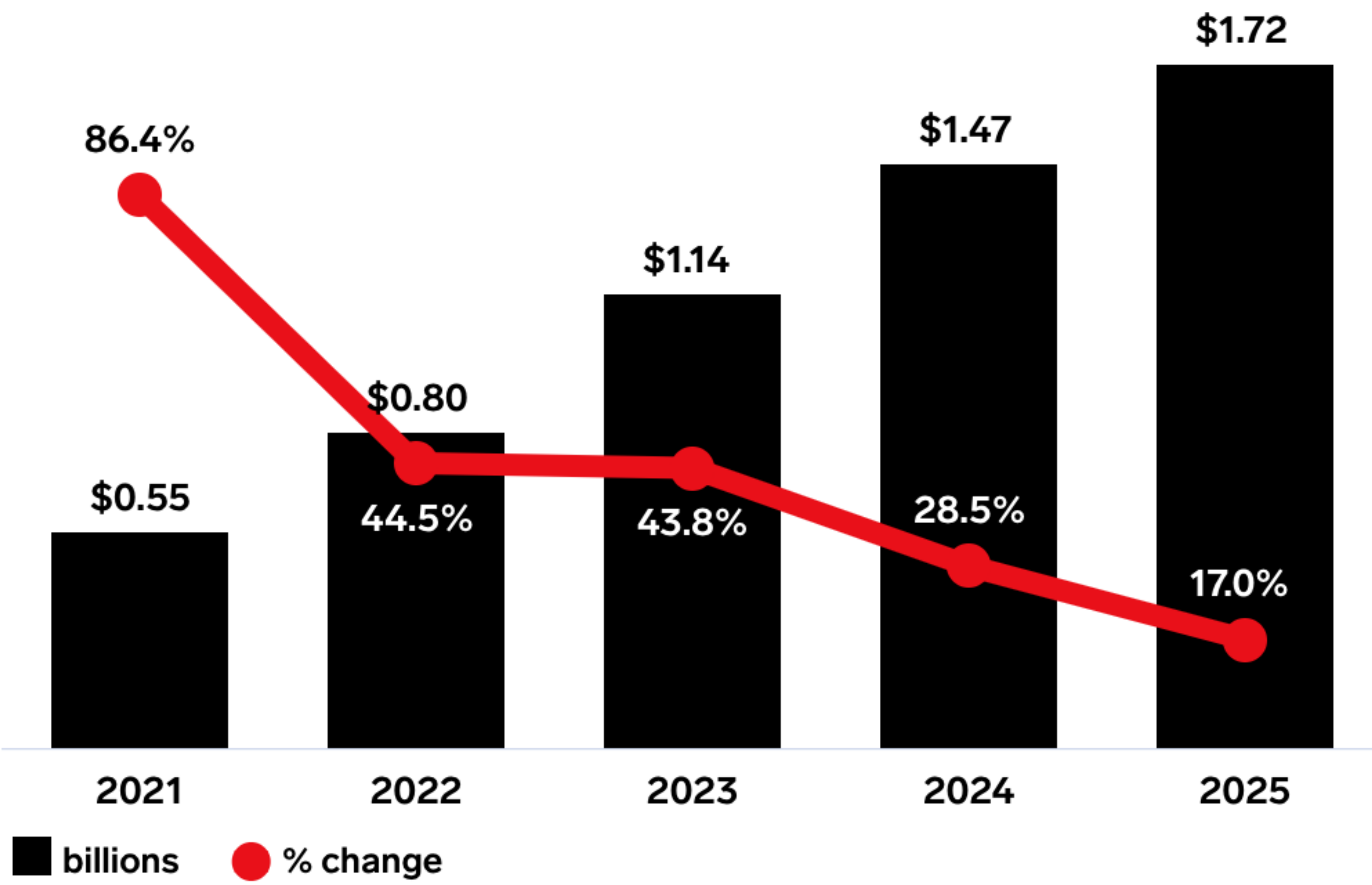
The big takeaway: Instacart has two key strengths: its exclusive agreements with grocers and its high-margin advertising business.

- As its agreements expire, grocers could shift to another provider or work with multiple partners.
- As for advertising, Instacart is looking to partnerships with companies like **Roku** that enable advertisers to use Instacart data to see if consumers bought a product after seeing an ad for it on TV.

- But it is unclear how many more times it can pull the retail media lever to spur growth. It already generates a larger share of its revenues from advertising than retail media leader **Amazon** and the ad business is dependent on the success of its delivery business. If the delivery business continues to slow, advertisers will begin shifting their dollars elsewhere.

Instacart Ad Revenues

US, 2021-2025



Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices, and includes all the various formats of advertising on those platforms; net ad revenues after companies pay traffic acquisition costs (TAC) to partner sites

Source: Insider Intelligence | eMarketer, March 2023

Insider Intelligence | eMarketer