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The economic headwinds are too strong for an Instacart IPO to overcome

Article

The news: Instacart's IPO is the latest casualty of the economic downturn as the food delivery company abandoned its plans to go public this year, per The New York Times.

- “The markets still remain closed for new IPOs, which is why there has not been a tech IPO in the last 10 months,” wrote CEO **Fidji Simo** in a memo to employees quoted in The Wall Street Journal. “We do not need a perfect market, we’re just looking for an open market window.”
- **2022 has been a challenging year for IPOs.** The US IPO market is set to record its slowest year since 2003, per EY.
- **The stock market downturn has also been challenging for companies that went public over the past few years.** For example, **Sweetgreen**’s stock price is down 46% since its December 2021 IPO, **Rent the Runway** is down 87% since it went public in November 2021, and **DoorDash** is down 76% since its December 2020 IPO.

A tough spot: The combination of a slowing economy and rising interest rates has forced many companies, including Instacart, to tighten their belts.

- While Instacart has been profitable, it recently took cost-cutting measures such as trimming staff and leaving some open positions unfilled.
- The moves were aimed at addressing its high labor costs and maintaining its profitability.

Other challenges: Beyond the difficult economic conditions, Instacart also operates in a space that has seen significant changes since digital groceries initially spiked in 2020.

- **Growing competition:** While Instacart dominates the US grocery delivery intermediary market, it faces growing competition from **Uber** and DoorDash, which have pushed deeper into groceries to help compensate for a slowdown in restaurant delivery sales, as well as grocers such as **Kroger** that offer their own delivery service.
- **Inflation:** Grocery prices were up 13.0% year-over-year in September, per the US Labor Department. And 69% of consumers have found product price increases to be “very” or “extremely” considerable, per a new PYMNTS study.
- **Shifting behavior patterns:** Amid widespread concern about food prices, 82% of shoppers are looking for ways to save on grocery bills, per Morning Consult. Those include comparing prices (83% of respondents) and buying generic or store brands instead of name brands (81%).
- While the survey didn’t ask about visiting a store rather than using a delivery service, it is easy to imagine cutting out a grocery intermediary as a simple way for some to cut costs.

The big takeaway: Given the market conditions, it made no sense for Instacart to plow ahead with an IPO this year. That said, there's little sign that the issues it faces—economic uncertainty, growing competition, and soaring inflation—will be resolved anytime soon.

- That's not good news for a company that has already slashed its valuation and endured multiple executive changes this year.

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