

THE RISE OF GROCERY DELIVERY SERVICES

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OUTLINE

I. Industry Overview

- I. The original emergence of delivery-style grocers and transition to the new era of online delivery style services.*
- II. How the Industry operates currently.*
- III. Industry Performance, Trends and Outlook*

II. Rapid Industry Growth & Potential Disruption

- I. The rapid emergence of new start-ups, increase in investment, and rise in industry valuations.*

I. Large Player Dominance

- I. Instacart, Amazon & Walmart.*

III. How This Affects MorrisAnderson

INDUSTRY OVERVIEW – ORIGINAL EMERGENCE TO NEW ERA DELIVERY SERVICES

- Grocery delivery services first emerged in the early 1980s, yet many operators were shuttered within the first years of operations.
 - Peapod was only company to survive the original wave of entrants after being founded in 1989.
- Amazon's started *Amazon Fresh* in 2007 to Seattle-based Prime Members only. However, after acquiring Whole Foods in 2017, Amazon's online-delivery service capabilities have expanded dramatically.
- Additionally, newcomers such as Instacart and GoPuff are creating a massive impact on the consumer experience.
 - Instacart and GoPuff are valued at \$39 billion and \$9 billion, respectively.
- COVID-19 pandemic spin
 - Nearly all e-commerce segments experienced a rise in popularity due to the COVID pandemic but online grocery delivery services were one of the biggest beneficiaries.

From (1990s)



To (2020s)



INDUSTRY OVERVIEW – INDUSTRY OPERATIONS

- Operators source products either from brick-and-mortar locations or independent centralized fulfillment centers.
 - Instacart sources products from 500 retailers they have partnered with.
 - GoPuff relies on 400+ “dark stores” that are between 8,000 to 12,000 square feet.
 - Amazon Fresh relies on the local warehouses while also having access to the 500+ recently acquired Whole Foods locations.
- Operators employ “gig workers” who are responsible for:
 - Picking up and delivery orders to customer, either ASAP or for a set delivery time.
 - Instacart employs in-store and full-service shoppers. In-store shoppers complete full shifts at a particular location while full-service shoppers complete the in-store work and deliver.
 - GoPuff employs 7,000 workers, between those staffed at the offsite fulfillment centers and drivers delivering orders.
- External competition is centered on the basis of price, product selection, delivery fees and time.

amazonfresh



instacart



Peapod



INDUSTRY OVERVIEW – INDUSTRY OPERATIONS (CONT.)



- Instacart services more classic grocers.
 - Aldi, Jewel-Osco, Mariano's, Costco, Walgreens, 7-eleven, CVS.
 - Sephora, Petco, Best Buy.
- Minimum order of \$10, delivery fees of \$3.99.
- Instacart Express members – free delivery on orders greater than \$35 for \$99/year membership or \$9.99/month.
- Service fee supports broader platform, based on factors such as number of items in your cart and location to retailer.

Receipt	
Simple Truth Boneless Chicken Thighs (- 1.36 lb) 4.5 lb x \$0.00	\$20.20
ITEMS FOUND (MARIANO'S) 2	
PRODUCE	
Onions - Yellow (- 0.97 lb) 1.57 lb x \$0.00	\$1.55
MEAT & SEAFOOD	
Johnsonville Italian Sausage Hot (19 oz) 2 x \$0.00	\$10.98
ORDER TOTALS	
Items Subtotal	\$36.31
Delivery Fee	\$3.99
Sales Tax	\$0.81
Tip	\$2.00
Service Fee	\$2.54
Total	\$45.65



GoPuff acts as a replacement for smaller convenience style stores.

- GoPuff categories includes snacks, ice cream, drinks, cleaning, home & office, health products, and more.

Finished Sun, Nov 22, 2020

(-) details [Add to New Order](#)

Order #1041625972

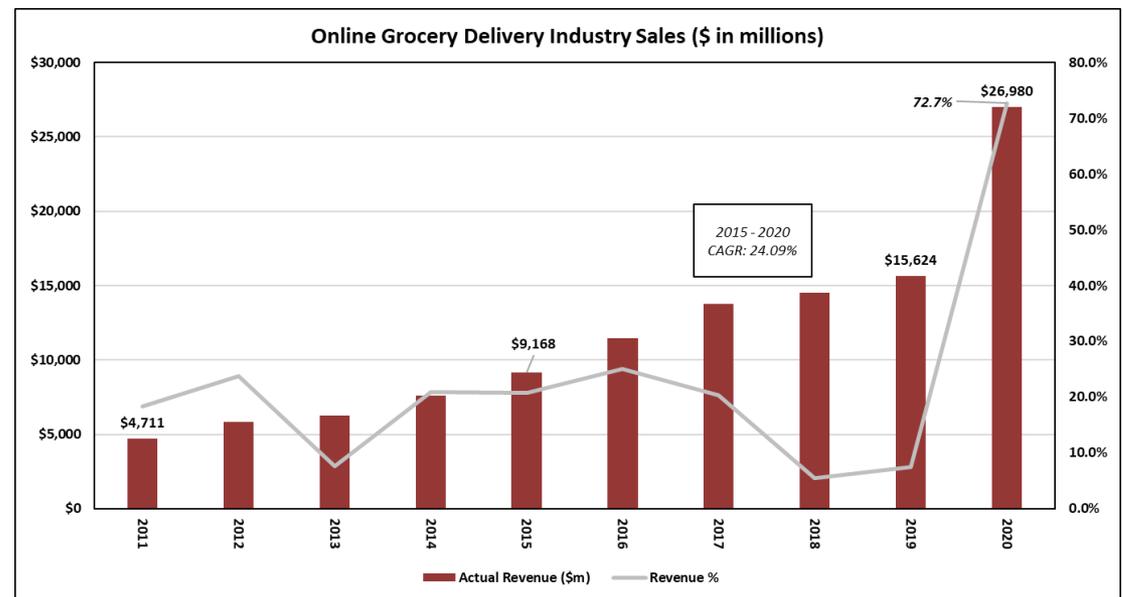
1	x \$3.57	S.O.S Heavy Duty Scrubber Sponge 3ct
1	x \$5.95	Goya Extra Virgin Olive Oil 8.5oz
1	x \$3.57	Crisco Vegetable Oil 16oz

Flat delivery fee of \$1.95, minimum order of \$10.

GoPuff "Fam" members includes free orders with a \$5.95/month membership.

INDUSTRY OVERVIEW – CURRENT PERFORMANCE

- Industry has grown over 2015 to 2020, primarily due to the spread of wireless mobile devices and the increase in online shopping
- Industry revenue peaked in 2020, increasing to \$27.0 billion.
 - Five-year CAGR of 24.1%.
 - 2020 revenue growth of 72.7%.
 - Nine-Year CAGR of 21.4%
 - EBITDA margins decreased to 3.0% in 2020, down from 5.1% in 2015.
- Number of operators in the industry has increased to over 4,200 companies, or 19.3% over the 2015 – 2020 timeframe.
 - Barriers to entry are low and competition is extremely high.



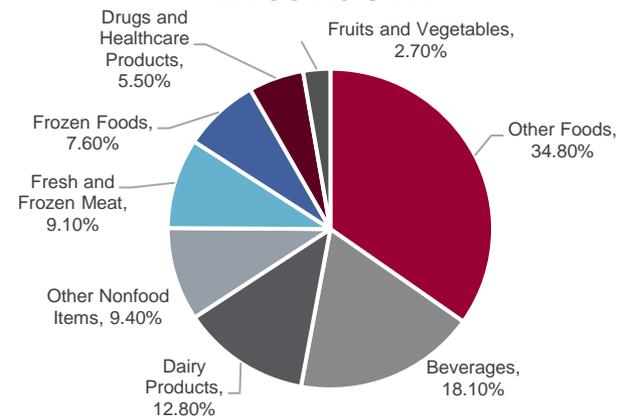
Source: IBIS Industry Report "Online Grocery Delivery Sales. Jacqueline Hiner, October 2020

While the industry has experienced rapid growth, aided by the COVID pandemic and increasing usage of e-commerce applications, the industry still accounts for less than 5% of total grocery sales of \$656 billion within the US.

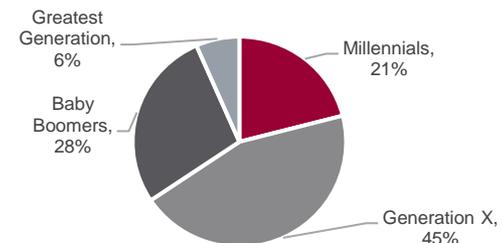
INDUSTRY OVERVIEW – CURRENT PERFORMANCE (CONT.)

- After the strong growth period, obstacles remain relevant.
- Consumers utilizing online grocery delivery services tend to purchase more non-perishable groceries, household convenience items and sundries.
 - Other food items, which accounted for 34.8% of 2020 industry revenue, was the largest segment.
 - Consists of bakery products, pasta, cereals, canned foods and other non-perishables.
 - Nonfood items, which accounted for 9.4% of industry revenue, consist of household sundries, such as paper towels, laundry detergent, cleaning supplies, etc.
- Interestingly, millennials currently comprise only 21% of this market, while Gen X leads with 45% of the market and Baby Boomers hold 28%.

Products and Services Breakdown



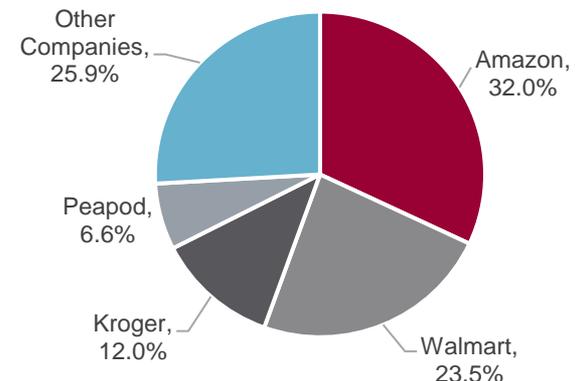
Consumer Market Segmentation



INDUSTRY OVERVIEW – CURRENT INDUSTRY TRENDS AND PRIMARY PLAYERS

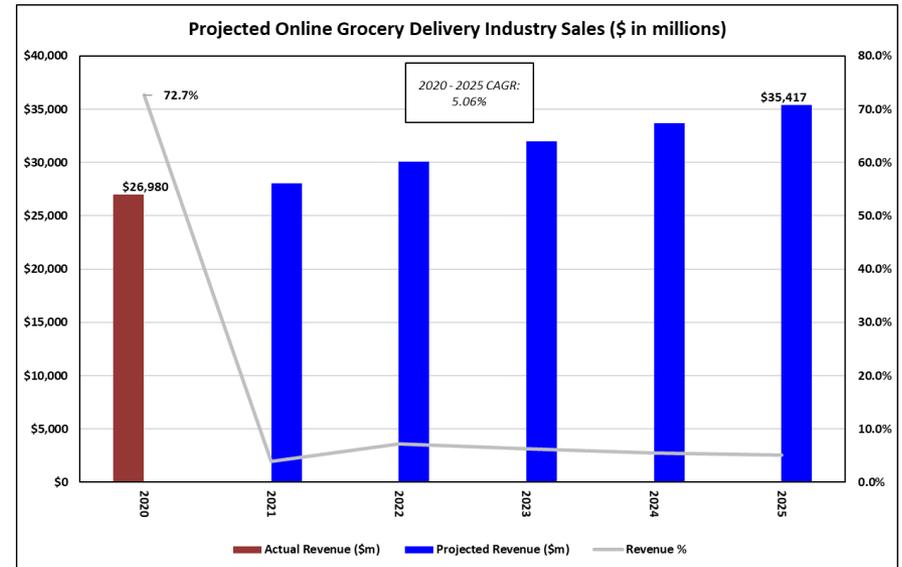
- Industry concentration is high.
 - Primarily due to the four largest players accounting for 74% of 2020 revenue.
 - Stems from large corporations who have the ability to leverage large scale brick-and-mortar infrastructure already in place.
- Competition Overview
 - Internal competition is high.
 - Existing brick-and-mortar retailers will consider implementing delivery or in-store pickup services.
 - E-commerce retailers can avoid opening physical retail spaces and utilize distribution centers to ship products to consumers.
 - External competition still prevalent but diminishing.
 - Many consumers will still want to do shopping in-store, especially for perishable items.

Major Industry Players



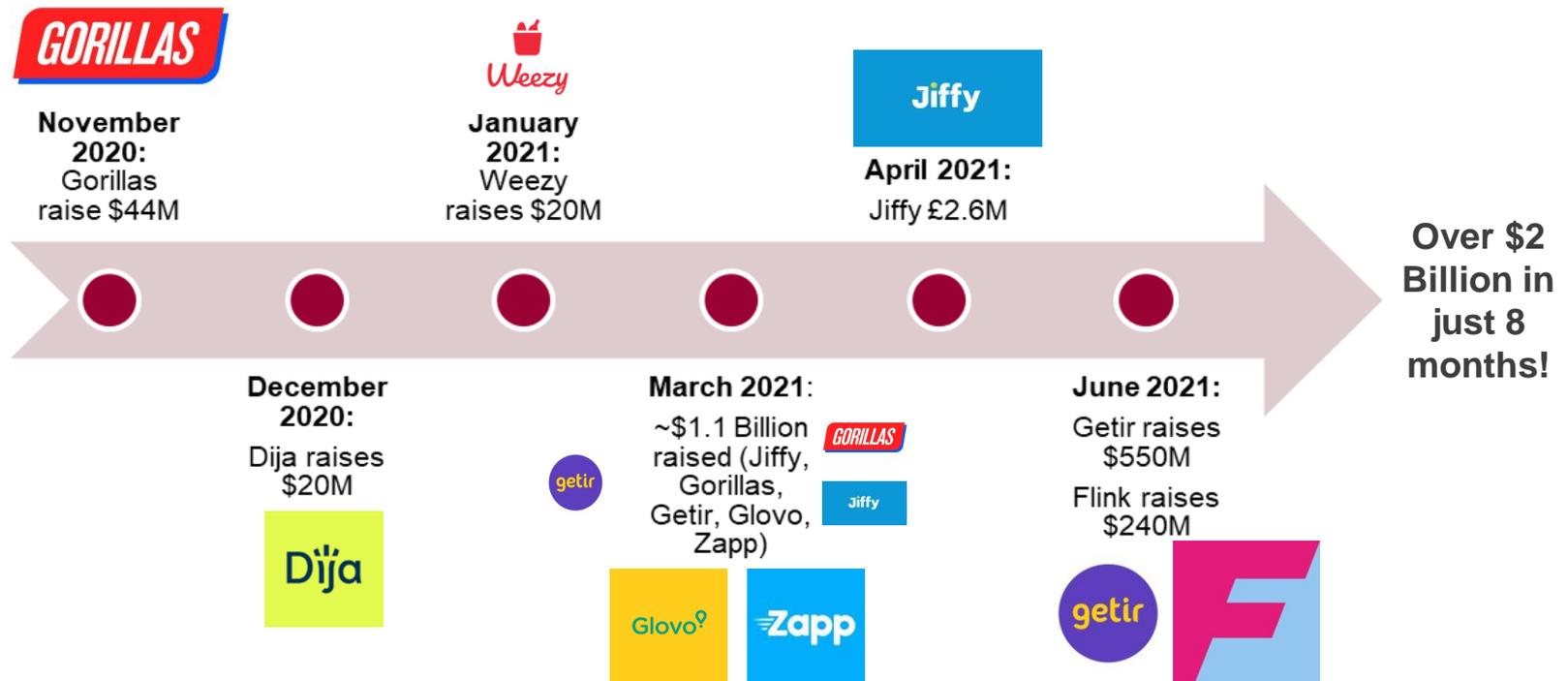
INDUSTRY OVERVIEW – FUTURE OUTLOOK

- Overall, the industry is still in a growth life cycle stage.
 - Growing from a small base while major players have entered the fold.
 - Additional consumers have begun to utilize industry services.
- Lingering pandemic fears will continue to drive demand for the industry.
 - Those who began utilizing online delivery services due to the pandemic will likely continue using the services to some extent.
- While only 23% of US adults have made a general food purchase online, this number is expected to increase.
 - Consumers will become accustomed to the trend.
 - Millennials, already familiar with online shopping, are expected to continue to purchase more online groceries as they advance professionally and accumulate wealth.
- Demand will also be increased by large players gaining more market share.
 - As Amazon and Walmart solidify their position within the space, their already massive customer bases will continue to filter into this particular product offering.
 - As a result of the growth of larger tech companies, smaller retailers will scale up their services in reaction to the growth.
 - This can be done by developing their own in-house delivery service and application or by engaging in a partnership with the likes of Instacart.
- As the industry matures, price-based competition will increase.
 - Amazon and Walmart will be able to offer lower prices to lure customers away from competitors.
 - EBITDA margins are expected to increase slightly to 3.7% by 2025.



RAPID INDUSTRY GROWTH – START-UP EMERGENCE

- As the industry has begun to increase in popularity and demand, start-ups and valuations have begun to soar, particularly throughout Europe.
 - Since the beginning of the Pandemic, over \$14 billion of capital has been raised. In the first three months of 2021, more capital was raised for this segment than was raised in all of 2020.
- Below is a list of 8 start-ups based throughout Europe that have raised capital since November 2020.



RAPID INDUSTRY GROWTH – START-UP EMERGENCE AND CAPITAL INFUSION

1. **Getir** 
 1. Founded in 2015. Turkish based instant delivery startup. 10-minute grocery delivery proposition.
 2. Raised \$550M in June 2021 Series D funding, bringing valuation to \$7.5 billion.
 3. Raised \$300M in March 2021 Series C funding, leading to a \$2.6 billion valuation.
 4. \$128M in January 2021 Series B funding, resulting in an \$850 million valuation.
2. **Glovo** 
 1. Founded in 2015, based in Barcelona, Spain. Courier service that purchases and delivers restaurant take-out meals and groceries pick ups to customers through a mobile app.
 2. Raised €450M in Series F funding in March 2021, bringing total funding to \$1.2 billion over last 12 rounds.
3. **Gorillas** 
 1. Founded in May 2020. Berlin based grocery deliver provider.
 2. Raised \$290M in March 2021 Series B funding round.
 3. Series A funding round raised \$44M in November 2020.
4. **Flink** 
 1. Based in Berlin, Germany and founded in late 2020. On-demand grocery delivery services operating through dark stores.
 2. Raised \$240M in Series A funding in June 2021.
5. **Zapp** 
 1. Founded in 2020 and based in Kent, UK. Another dark store operator.
 2. Raised \$100M in March 2021 Series A funding round
 3. Employs all riders directly, stepping aside from the gig economy.
6. **Dija** 
 1. Founded in November 2020. Based in London, England. Provider of grocery delivery services to customers in under 10 minutes.
 2. Raised \$20M from Blossom Capital in December 2020 without even being incorporated.
 3. Strength of founders, who had background/experience at Deliveroo, and other "logistics ventures".
7. **Jiffy** 
 1. Founded in November 2020. London based online grocery and household essential delivery service operating through dark stores.
 2. Raised \$6.6M between two seed funding rounds in March and April 2021.
8. **Weezy** 
 1. Founded in 2019 and based in London, England. Enables users to deliver favorites from supermarkets in minimal clicks.
 2. Raised \$20M in January 2021 Series A funding round.

RAPID INDUSTRY GROWTH – POTENTIAL DISRUPTION

- With the industry swimming in new capital, how do things play out from here?
 - Consolidation is inevitable. The sheer number of start-ups in London who are essentially providing the same service will have to reduce.
- Co-founder of Barcelona-based Glovo Oscar Pierre compared the industry hype to the electric scooter frenzy that took place in 2018, when companies such as Bird, Lime, and Spin all raised large sums of cash.
 - Interestingly, many of these companies have struggled immensely due to the COVID pandemic.
- Michael Moritz of Sequoia Capital is also pessimistic as he believes many of the younger newcomers are due for a “brutal education”.
- The amount of new start-ups and fresh capital presents another question: will any newcomer be capable of competing with the likes of Instacart, Amazon Fresh or Walmart?

RAPID INDUSTRY GROWTH - LARGE PLAYER DOMINANCE

- Instacart, with 2020 revenue exceeding \$1 billion, over \$2.5 billion raised and a valuation nearing \$40 billion, is becoming one of the most feared players in the industry.
 - According to cofounder Apoorva Mehta, in a matter of five weeks they experienced five years of growth.
- Instacart relies on relationships with retail operators, sourcing products from a number of different grocery and convenience stores.
 - Hardly physical assets made up for with significant intellectual property, customer data and employee base.
- They employ roughly 700,000 shoppers who travel to a chosen location to select and purchase items a customer has chosen through their app.
- Profits are split with the operator after order fees and price increases.
- The relationship with retailers has significant upside and also massive lingering downside.
 - “Turnkey e-commerce solution for retailers”.
 - Instacart controls customer relationship.
 - In turn, collects an immense amount of consumer data.

RAPID INDUSTRY GROWTH - LARGE PLAYER DOMINANCE (CONT.)

- Instacart “digitizes” commerce for consumer benefit, while also opening the door to a digital storefront that most retailers lack the capital to create and maintain.
- Downsides to this have become apparent. The in-store consumer experience is being disrupted by Instacart’s gig shoppers.
 - Inventory depleted after unexpected online demand for a particular product.
 - Store front displays and on-site promotions lack significance.
- More importantly, retailers are risking losing control of their customer data to a third-party that is increasing its reach at a rapid pace.
 - Retailers need to adapt to the likes of Instacart by leveraging the consumer data. This will allow them to make informed decisions, including in-store.

RAPID INDUSTRY GROWTH - LARGE PLAYER DOMINANCE (CONT.)

- Long-term success for select retailers could be in question depending on how they maintain relationships with third-parties such as Instacart.
- Instacart will eventually plateau with accumulating retailer partnerships.
 - Due to the minimal margins generated by the current operations, profits will have to be optimized.
- Due to the immense amount of customer data across multiple categories, creating independent automated fulfillment centers and eliminating the need for retailers is a theory some grocers are becoming concerned with.
- When you consider the likes of Amazon and Walmart in tandem with Instacart, one can understand why small local grocers are concerned.
 - Stretch to assume that Instacart can disrupt a \$1 trillion dollar industry with such damaging effects.

HOW THIS COULD IMPACT MORRISANDERSON

- Wind-down or liquidation of small rural grocery operators?
- Turnaround or operational improvement work for grocery stores who have transitioned to mainly e-commerce sales?
 - More than likely, retail grocery operators will be able to maintain with the likes of third-party online-delivery providers in the near future. As Instacart expands its reach, and the increased adoption of mobile e-commerce applications continues, smaller operators will be able to partner with these newcomers and generate additional revenue outside of their dedicated customer base.
 - However, smaller, more rural grocery operators are in a precarious position.
 - As Amazon, Walmart and Instacart expand their reach, the big box retailers located in a neighboring town will now have the capability to deliver to the local rural grocery operator's customers.

SOURCES

1. IBIS Industry Report *Online Grocer Sales*. Jacqueline Hiner, October 2020
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