Twitter Thread by Elliot Turner



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Instacart is a great example of a company that as it exists today is a interim, not end state business. There will be opportunities to change that positioning, but they will face some critical choices ahead.

Supermarkets are built purposely in prominent locations to catch retail eye & the layout is designed to offer a wide range of SKUs while drawing attention to the highest margin and/or velocity ones.

1st problem: the supermarket's sprawling layout is suboptimally designed for efficiently picking & packing your order.

2nd problem: Instacart doesn't have perfect visibility into the SKUs at a given supermarket in a given day, so the inefficiency for a picker is twofold-can't find items, then have to wait for your approval for replacement goods before checking out.

So what is Instacart? The two things they do efficiently are:

1) own the customer & monetize the data that comes along w/ that.

2) Efficiently deliver last mile logistics.

They are NOT an efficient picker & packer of the goods themselves, though they do make plenty of money on that job today.

Importantly there are better models being developed & proven by some supermarkets powered by the likes of Ocado.

The problem as I see it for Instacart & for supermarkets is either Instacart has to build their own dark stores with wide ranging SKUs and efficient picking/packing (whether lightly or fully automated).

Or supermarkets need to dedicate more of their floorplan toward an optimized logistics-only fulfillment setup. If supermarkets do this, they will want to be compensated for the expense/service instead of Instacart itself capturing that margin.

In the pre-supermarket days, groceries were a counter, with a phone and the clerks picked stuff off linear shelves to either have ready for pickup or delivered to the door (full last mile). https://t.co/OmLdaFy5Tm



Going Back to the Future is inevitable here, but who controls which pieces and how profit pools are allocated across partners is not obvious yet.

How can Instacart coax supermarkets to evolve their presence for an optimized last mile setup without promising the notably low margin biz of supermarkets more of the revenue pie?

Alternatively, how can Instacart start building their own optimized, vertically integrated digital supermarket with last mile fulfilment without alienating their supermarket partners along the way?

Threading the needle between these two competing interests will not be easy, but it will be interest to watch as both a customer and investor studying (but not investing in) the space.

You can win a big market by winning in the interim state, owning the customer on the way to an endstate. Netflix is a great example of such a co who threaded that needle. https://t.co/7XSEXFSgA6

> And Reed knew this in calling a DVD-by-mail company "Netflix," so there is a way out, but it's not necessarily easy!
>
> — Elliot Turner (@ElliotTurn) January 19, 2021