Case Study Write-up: DASH and CART

Business Model Comparison

DASH struggles in the meals segment, relying on aggressive pricing, partnerships with the most wanted restaurants, and the fastest delivery. However, that is still not enough to maintain leadership, as customers face non-existent switching costs choosing alternative platforms and are characterized by weak brand loyalty. Moreover, growth and expansion are limited by drive-throughs, national chain platforms, and established online grocery competitors.

After post-COVID growth, CART successfully leveraged economies of scale despite a consolidated grocery market, which increases the bargaining power of stores (*Figure 1*). CART has first-mover advantages, but it will struggle to gain a bigger share of the market without innovating its business model while maintaining low costs and high margins.

A weakness in both business models is the classification of workers as independent contractors to lower costs, which is unsustainable for the long term, as numerous lawsuits highlight.

Margin Analysis

The grocery business has generally lower operating margins (5%) than the restaurant business (16%). CART managed to increase its take rate at 7.5% in 2023, while Doordash has a higher take rate of 11.79%. That said, CART reduced its cost of revenue and R&D as a percentage of revenue, increasing gross profit, though analysts argue this may be unsustainable in the future (*Figure 2*).

On the other hand, DASH's continuous funding rounds seem to be the main reason for their market share growth and ability to stay ahead of competitors, coming at the cost of increased spending, reduced operating margins, and a non-sustainable growth. This remarkable difference drives the EBITDA margins' gap: DASH at 4.88% and CART at 16.13%.

TAM Estimates

I estimate an online food delivery TAM of $107bn for meals and $358bn for groceries (*Figure 3*). Considering revenue from transactions (excluding advertising), Doordash ($8.6bn*) and Maplebear ($2.4bn) hold 8.05% and 0.68% share of their market segments' TAM, respectively. **Exact revenue breakdowns are undisclosed.*

I calculated the value using U.S. Census Bureau's data with a top-down approach. Starting from the US population, I restricted the target to individuals aged 14-65 with broadband access, then multiplied by the Average Revenue Per User (ARPU): $554 for meals and $1,861 for groceries delivery (source: Statista). It must be specified that this provides a static market picture, without considering ARPU growth or declining trend in the U.S. population.

It is worth noticing that Damodaran stated that "the ceiling on online grocery market share could be capped at 20% of the overall market", lowering TAM estimates.

Elevator Pitch

Groceries represent essential spending, being a more reliable, less volatile source of income. CART has the opportunity of keeping its market share and benefit from the overall increasing market penetration. This paired with strategic planning and increased advertising revenue, could really make Instacart one of the leading players, even in a more mature industry.

To conclude, DASH is priced at 600x its P/E, not justifiable given that the expected growth rate would be unrealistic: implying both increased gross transactions value and higher margins over an extended period.

Appendix

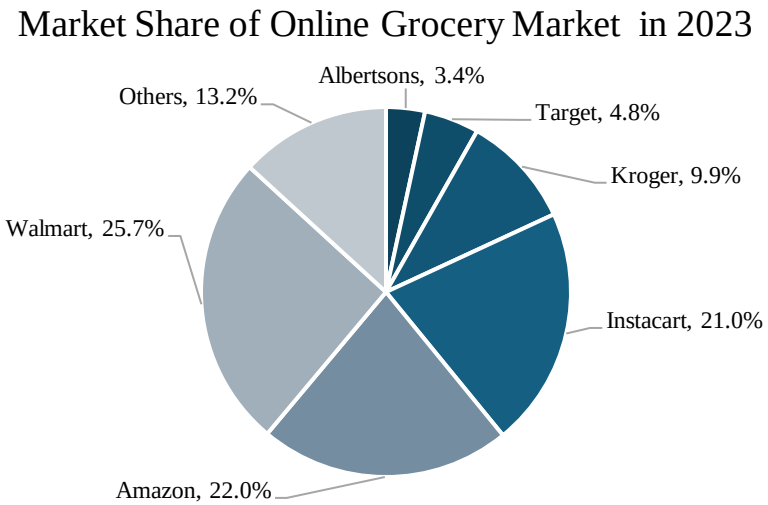

Figure 1: Market Share of Online Grocery Market in 2023

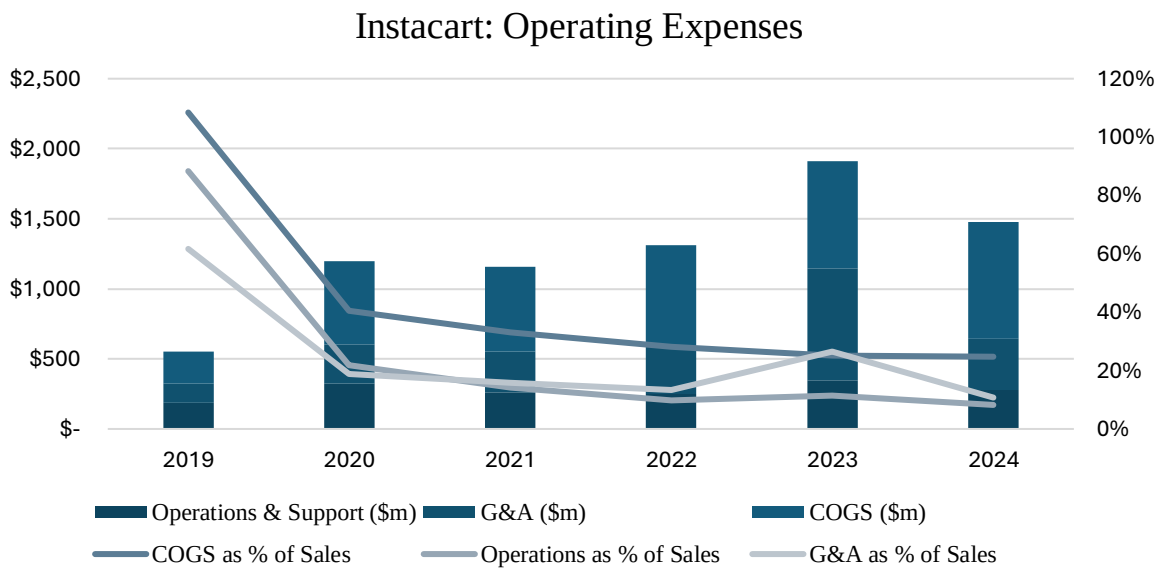

Figure 2: Instacart Operating Expenses

Online Meals Delivery		
U.S. population 14-65y with broadband access	ARPU	**TAM**
195,433,963	$554	**$107bn**

Online Groceries Delivery		
U.S. population 14-65y with broadband access	ARPU	**TAM**
195,433,963	$1,861	**$358bn**

Figure 3: TAM Calculations (Total: 465bn)