Food Delivery Wars
Uber’s journey from Taxis to Tacos
By Sudhanva R. Vasisht

No longer just a ride hailing service

It was during mid-2014 when Travis Kalanick, then CEO of Uber, and his co-founder Garret Camp had entered Uber into the booming food delivery space by introducing UberFRESH. This would go on to be remodeled as Uber Eats in about a year. The ride-hailing giant, after conquering the taxi market, was venturing into what would become one of the most competitive spaces, food-delivery. Soon after Kalanick’s unceremonious exit from the company, the new CEO Dara Khosrowshahi wasted no time in shining the spotlight on Uber Eats when he claimed that Uber Eats is growing at a staggering 200% growth rate in 2018. Just 3 months after Uber filed for its IPO, by its second-quarter earnings report in 2019, it was evident that Uber Eats was shaping up to be for food delivery space what Uber had become for the ride-hailing industry. Even though Uber reported a quarterly loss of $5.2 Billion, the silver lining was that Uber Eats revenue had grown 53% year-over-year and had accounted for $337 million in adjusted net revenue.

The Competition

While Uber Eats was growing at a remarkable pace, its major competitor, Grubhub was on its way to becoming the biggest food delivery service.
delivery service in the US taking well over 44% of food delivery orders in 2017. While Grubhub was dominating the US market in terms of market share, another food delivery startup, DoorDash was crushing the competition with deliveries in more than 500 cities, serving food from more than 59,000 restaurants. But because of Uber’s global footprint, Uber Eats was able to piggyback on its parent company’s global outreach and by November 2018, had its operations in 200 cities globally. Around 2018, it was evident who the big players were in the food delivery industry, and people had a variety of delivery apps and aggregators to choose from.

**Battle for Grubhub**

As the world was still waking up to the global pandemic, businesses started to take a hit on all markets. Uber was no different as it reported a net loss of $2.9 Billion in the first quarter of 2020. As more and more people began to stay indoors, Uber rides naturally took a hit but Uber Eats saw an uptick in gross bookings, as the business grew over 50% year-over-year. The pandemic, while shunting the business for rides, had enabled the growth of Uber Eats. This number almost doubled in Uber’s Q2 earnings report as the gross bookings for Uber Eats had grown over 100% year-on-year. Recognizing that the food delivery side of its business was more lucrative than ever, Uber decided to consolidate the market by showing interest in acquiring its long time rival Grubhub in May of this year. The deal would render UberEats as the unequivocal leader in the US in the food delivery space, conveniently leading its other competitor DoorDash. Acquiring Grubhub would catapult Uber to first place while expanding its ability to serve in more locations. But everything didn’t go according to plan for Uber as the British food delivery company Just Eat Takeaway swooped in to beat Uber to acquire Grubhub for $7.3 Billion, valuing Grubhub at $75.15 per share. This deal would serve as the gateway for Just Eat to enter into the US food delivery market.

**Uber Acquires Postmates**

Launched in 2011, Postmates was gaining popularity among the masses. Touted as the “Anti-Amazon” by Postmates’ CEO Bastian Lehmann, Postmates had operations in 2,940 cities in the US delivering food and other groceries to its customers. By January 2019, Postmates had reached a valuation of $1.85 billion after raising $100 million from BlackRock, Spark Capital, and an assortment of VCs. This was after the $1.2 Billion valuations reached from its $300 million funding deal led by Tiger Global Management at the end of 2018. After the Grubhub deal fell apart, Postmates was the next best option for Uber Eats. As part of their market consolidation efforts, on June 9th, Uber Eats announced it will be acquiring Postmates for $2.65 billion, all-stock acquisition. The deal is set to close in Q1 of 2021. This deal is being met with mixed reactions in the market. While some people argue that it is not healthy that just 3 firms are controlling almost 98% of a rapidly growing market and citing that it might spark up antitrust issues which prevented the Uber-Grubhub merger, others argue that Postmates and Uber are complementing each other in the hyper-local food delivery space. While the merger might relieve Uber from the pain of signing those many customers, Uber still has to strive to maintain the customer retention rate with growing competition from other food delivery firms and restaurants themselves.
After three internship offers being rescinded due to COVID-19, I finally had the opportunity to intern at IHS Markit as a Private Equity Intern this summer. My role involved extensive financial modeling, application of valuation methodologies, understanding, and forecasting macroeconomic factors. I learned the valuation of different bonds and equity using the Option Pricing Model (OPM). The internship was a great learning experience and gave me a platform to apply my existing skills while gaining new ones. I also received an offer to join the company full time and would recommend everyone to consider interning at IHS Markit. Also having a CFA charter helped me immensely and I encourage everyone to pursue CFA.

Feel free to reach out to me on LinkedIn, happy to help in any way I can! #whoosh

Definition: Stock split

It is a financial process by which a publicly traded company issues additional shares to its current shareholders. A stock split results in an increase in the number of shares outstanding. However, the company’s market capitalization remains unchanged.

Quiz Time:

1) Type of M&A Deal when acquiring firm’s EPS increase after the deal goes through -

A) Accretive Merger
B) Dilutive Merger

Word Scramble:

1. V I A T O A N L U
2. N S R E G Y Y
3. A L R E V G E E
4. E I N E O S S G R R
5. T W R H G O

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