

Delivery Start-Ups Are Back Like It's 1999

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Illustration by Kelsey Dake

Last year, I was excited to hear about a new start-up in San Francisco that delivered cheap bottles of wine within an hour. It was called Rewinery, and it was fantastic. I ordered a \$5 malbec one day and a \$10 chardonnay the next, delivered by bike courier for a modest fee. Already, San Francisco was crawling with bikes, inching up the hills, shuttling sushi and groceries and new clothes, all summoned with the tap of a finger. But Rewinery was the first of the delivery start-ups that made me feel the way I felt back in 2000,

when I could order a video and a pint of ice cream to my doorstep from Kozmo.com. Rewinery felt too good to be true.

It was. One day, seeking refreshment, I opened the app to find that Rewinery had gone out of business.

In the tech crash of the early 2000s, on-demand delivery services like Kozmo and Webvan weren't just among the most colossal failures. They also became a sort of grim joke, symbolizing the excess that portended the bust. Afterward, conventional wisdom hardened: Web-enabled delivery was not a good business because it simply cost too much to build warehouses, manage an inventory and pay drivers. There was too little opportunity to recoup expenditures in delivery fees; people will pay only so much for toilet paper to be delivered before they decide to fetch it themselves.

But something is in the air of late, making hindsight blurry. Despite the early demise of Rewinery and the shrunken ambitions of others, such as eBay Now, similar start-ups with names like Caviar, SpoonRocket and DoorDash have raised half a billion dollars in investment in the last year, according to CB Insights, which tracks venture capital. Even Louis Borders, the founder of Webvan (as well as the Borders bookstore chain, another Internet casualty), is at work on a grocery delivery start-up. Uber is using the \$1.4 billion it just raised to expand beyond delivering people to delivering things. Meanwhile, venture capitalists joke that every other entrepreneur they meet pitches an "Uber for X," bringing goods and services on demand: laundry (Washio), ice cream (Ice Cream Life), marijuana (Eaze) and so on. Investors are stuck wondering whether this is 2000 all over again, or whether this new breed of delivery start-ups can succeed where the last crop so famously failed.

John A. Deighton, a Harvard Business School professor who wrote a case study on Webvan, likes to compare the delivery business to shining shoes. "You make as much profit on one shoe as you do on a thousand shoes," he said. "There's just no scale." In years past, it was difficult for Deighton to even teach his students about Webvan, because its fatal flaws were so

obvious. They didn't understand how the euphoria of the dot-com boom could have obscured its shortcomings. But in the last year, he has been asked to teach it three times. "Something has changed," he said.

The biggest change is that the companies are trying to improve same-day delivery with software — and, at the same time, are distancing themselves as far as possible from the physical supply chain that killed their ancestors. They have dispensed with warehouses, trucks and full-time drivers and instead have become middlemen, whose sole role is to connect customers with couriers. But the one piece of the puzzle they have failed to eliminate is the hardest part of logistics, and the one Deighton says makes the entire business model unravel: the last few miles of the journey, getting small-ticket orders to far-flung houses.

The entrepreneurs and investors behind these companies say software can solve that, too, with algorithms that minimize the amount of time it takes couriers to pick up orders and maximize the number of deliveries they can make.

"The reason it is such a good idea now is the exact same reason it was so horrible before: the network effect," said Nabeel Hyatt, a venture partner at Spark Capital, which has invested in Postmates, a courier service that delivers from any store or restaurant. Not even half of American households had an Internet connection in 1999; today 98 percent have access to a connection. And it certainly helps that customers and couriers all have smartphones. This means a higher density of users and potential users, who can instantly reach couriers whenever they are in need, eventually leading to scale.

In the '90s, Webvan built several \$35 million, 350,000-square-foot distribution centers. By contrast, Instacart, which offers one-hour grocery delivery in 12 cities, has just 70 employees in a small office in San Francisco, all of them engineers and administrators. They never touch the food — instead they contract with "personal shoppers." "We literally don't have any

warehouses, we don't have any trucks," said Aditya Shah, Instacart's general manager.

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Of course, the couriers still need to be paid. "The complicated part is not getting customers, it's getting the product to the customers," said Paulo Lerner, Rewinery's founder, who fled San Francisco for Brazil. "If they charge a lot, it loses the appeal. If they charge less, it has a lot of appeal, but at the same time, they are running on losses."

Instacart charges as little as \$3.99 for grocery shopping and delivery. Yet Shah said its shoppers make about \$20 an hour, plus tips, which makes profitability seem unlikely, even with the smartest algorithms routing shoppers through grocery stores and city streets. When I told him that, he sounded a lot like Borders back in Webvan's heyday: "We're really well funded, so that is not something we're as worried about," Shah said. "Growth is the most important factor."

That growth-first philosophy is hardly unpopular in Silicon Valley, where a focus on expansion at the expense of profit has worked well for web businesses. Delivery start-ups are trying to bridge the digital and physical worlds — and that's when things get expensive. "It's a hard category — outside the Internet, where everything magically happens," said Lerner, the Rewinery founder. "This is real work, hard work. "

Josh Lerner (no relation to Paulo), who runs the entrepreneurial management unit at Harvard Business School, is similarly dubious. "Someone is paying for it, but it's definitely something that seems to defy the laws of introductory economics," he said.

The question comes down to how much people are willing to pay to be lazy.

To economists, laziness isn't necessarily a bad thing. To the sympathetic onlooker, these companies could be a step on the path to the world prophesied by John Maynard Keynes (and even "The Jetsons"), in which technology advances to the point that chores are replaced by leisure time. But even this suggests a gloomy outcome: On-demand delivery could create a two-tier economy — the people who can afford to hire others to do their errands and the people who do them. That is, unless Amazon succeeds in automating grunt work out of existence. (It already has robots that pick items off shelves and pack them in boxes; it wants to have a fleet of delivery drones.)

Or it might be useful to listen to Fred Wilson, the co-founder of Union Square Ventures, who lost a lot of money on Kozmo. "I wish we knew the answers to these questions, but we don't," he told me. "That's what's kept us out of this market." He still signs up for new delivery start-ups as a customer, though. After all, the worst case is that we'll go back to doing the same thing I did when Rewinery went under — running out to the store.

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