

Rappi Inc. (Rappi SAS)
www.rappi.com

Introduction

Rappi's vision is to "change the way people buy things around the world".

Rappi is one of the fastest growing startups in LATAM (Latin America) and is possibly the most interesting deals from the region. Rappi is an ODE (on-demand economy) startup from Colombia that allows anyone to order anything (almost everything) or have any task "solved" 24/7, via RT (rappitenderos) which are on-demand personal assistants by the hour using a mobile app or the website.

Started by five entrepreneurs from Colombia, since it's initial launch summer of 2015, as of 1Q17 Rappi has a user base of 1MM+, impressively growing at +20% MoM. Rappi is currently available only in Mexico and Colombia, but will soon be available in Brazil and Argentina.

Rappi recently raised USD \$52.7M¹ in series A (most likely at a \$150-200M valuation) from a16z (Andreessen Horowitz), monashees, FJ Labs, FLOODGATE, Foundation Capital. Rappi also raised USD \$2M in Colombia before starting YC (USD +\$120K) making them a compelling case for raising startups and potentially a first for Colombia.

Competition

There are several direct, potential and indirect competitors which are:

- Direct LATAM: Mercadoni, Merqueo, Mercado Fresh, Supermercado Now, CornerShop, Delivery Hero (Domicilios.com, PedidosJa, PedidosYa), iFood, Hogaru, Loggi, Easy Taxi
- Direct Non-LATAM: Postmates, Instacart, Uber (UberEats), Yelp (Eat24), Deliveroo, Just Eat, GrubHub/Seamless, delivery.com
- Other ODE (Developed Market): TaskRabbit, Handy, Hello Alfred, Thumbtack, Cabify
- Other ODE (Emerging Market): Didi Chuxing, Ola, Grab, GO-JEK, CargoX
- E-commerce (LATAM): MercadoLibre, Avenida.com, B2W Companhia Digital, Dinda, MadeiraMadeira
- E-commerce (Rest of the World): Amazon.com (Prime/Fresh), Google, Groupon, eBay, Alibaba, JD.com, Tencent, Facebook, Rakuten, Flipkart
- Traditional Retailer: Walmart, Costco, Kroger, Tesco, Metro Group, Walgreens, CVS Health, IKEA, Home Depot
- Tradition Retailer (LATAM): Walmart de México y Centroamérica, Grupo Exito (Carulla, Exito), Cencosud SA (Jumbo, Metro, Easy), Comercial Mexicana, Grupo Gigante, PriceSmart, Companhia Brasileira de Distribuição, Organizacion Corona (Homecenter)

There are many different competitors in Rappi's several verticals in LATAM and other markets particularly EMEA and APAC. However, Rappi has a strong hold in Colombia and Mexico and is truly the only company in LATAM that has an offering a wide variety of services, with a recognizable brand.

¹ https://www.sec.gov/Archives/edgar/data/1693234/000123191916000071/xslFormDX01/primary_doc.xml

Key Risks

Users

Rappi's initial user segment was middle and high-income individuals (estrato levels²³ 4-6⁴) in Colombia. Given Rappi's low fees and its advantages over traditional retail experiences, I believe Rappi has the potential to appeal to broader segments of the population throughout LATAM. This is especially relevant since the online channel is virtually untapped in Colombia. With virtual sales only ~USD \$3.5B in a USD \$290B economy⁵, there are tremendous opportunities for Rappi.

Despite the growing middle class⁶ in Colombia, only 1/10 people purchase online (since purchasing online is not a norm throughout LATAM, along with low credit card penetration), Rappi is uniquely positioned to reinvent this category first by bringing the retail experience to the customer.

However, to achieve this Rappi will have to help the population (in Colombia and rest of LATAM) overcome the fear and taboo of online transactions along with developing or partnering with another startup (such as Tpage) that can provide an alternative to the unbanked which is estimated to be roughly ~70%⁷ of LATAM or 400MM+.

Expansion (Market)

Rappi has been aggressively expanding throughout Colombia and Mexico⁸. In just 2 years since inception, the product is available in almost all of Colombia and Mexico. Rappi like most ODE companies in the past (ie Homejoy) may fall to similar issues and face the pressures of raising a huge round (in this case, USD +\$55M) leading to fast expansions. In an effort to meet the expectations, it may be that Rappi might be expanding too quickly into new markets as opposed to focusing on developing out current markets.

Rappi is expected to launch in Brazil 3Q17 and Argentina sometime between 4Q17-1Q18. With rapid expansions:

1. It appears with grocery/market/retail delivery is not established in Brazil, however within food/restaurant delivery there are several established competitors.
2. When will Rappi stop to focus on developing current markets before entering new ones?

Customer Experience

Rappi is a fast-growing company rapidly approaching a point where they can either cement customer loyalty or break it (i.e. drops in quality of service, unaddressed customer churn, customer dissatisfaction). As Rappi expands into new markets, I believe that it will be important for Rappi to focus on increasing its quality by having consistent superior customer experience (CX).

Any mishaps even at this stage can potentially be damaging to the brand and reputation of Rappi (i.e. Uber vs. Lyft). It is known in some of its markets that the quality of the services is not up to par and have somewhat declined (i.e. wrong orders, orders taking up to 2 hours, food being

² http://www.bbc.com/mundo/noticias/2014/09/140919_colombia_fooc_estratos_aw

³ <http://www.urosario.edu.co/economia/documentos/pdf/dt171>

⁴ The six estrato levels: 1 is lower-low, 2 is low, 3 is upper-low, 4 is medium, 5 is medium-high, and 6 is high (social elites)

⁵ <http://www.eltiempo.com/archivo/documento/CMS-15119458>

⁶ <http://www.worldbank.org/en/news/feature/2012/11/13/colombia-middle-class-grows-over-past-decade>

⁷ <http://pubdocs.worldbank.org/en/113791483565360488/N2UnbankedV5.pdf>

⁸ <https://expansion.mx/tecnologia/2016/07/18/rappi-la-aplicacion-que-quiere-resolver-todas-tus-necesidades-de-servicio>

delivered cold). One of publicized CX gaffes is when Rappi charged COP \$820,800 of the empanadas + COP \$3,500 for delivery + COP \$1,000 tip for a total of COP \$825,300 (USD ~\$283) to deliver 12 empanadas⁹ with the refund taking +2 months.

Consumers of on-demand products typically feel no loyalty to a specific brand, especially when the outcome of the service is objective (ie ordering food, delivering grocery) and competing companies are similarly priced - it seems that not only is Rappi developing a recognized brand but also experimenting with an early rewards program known as CashBack where frequent users can use RappiCredits to purchase items/services.

1. Will Rappi be fully developing a free rewards program that is designed to retain loyalty, much like frequent flier programs (i.e. United MileagePlus, Delta SkyMiles), retail rewards program such as Nordstrom Rewards or a paid program such as REI's Co-op membership where you incur a one-time fee but a lifetime membership + dividends?

Quality

Fast growing companies generally have the challenge of consistent services. Oftentimes one would try a service, where the first time was amazing and the second time around where the service is subpar which was common with Homejoy, Lyft. Rappi is also developing innovative ways to decrease the total wait time and better logistics in an effort to deliver excellence in customer service. One way Rappi is working on this is developing a bracelet that alerts restaurants when an order is in to cut wait time.¹⁰

1. How will Rappi monitor and effectively engage and correct issues with customers real-time and ensure that issues are resolved quickly?
2. It appears if issues arise, getting issues resolved is harder with the current state of the platform. Is Rappi developing its own CX/QC to handle customer inquiries and progress?
3. Will Rappi be implementing AI/machine learning to better serve customers, predict orders as well as use in logistics, etc?

Trust & Security

Trust will most certainly become an issue Rappi will soon face. Rappi is testing home improvement services (Servicios Technico or ST) serviced by Pros (it is unknown if these Pros are licensed, etc.) and plans to follow a similar model to Handy, HomeAdvisor, Homee in US. Along the same verictial Rappi will be competing with Hogaru which provides similar services on-demand in Colombia. Rappi will have to invest in developing an infrastructure to hire and maintain a pool of qualified candidates, rather than massively hiring as many independent contractors separate to RTs.

Even though the level of training for the RTs does not have to be as rigorous, as Rappi expands its offering, standardized training will be required (for RTs and Pros) to maintain top quality control and minimize any issues. I believe that Rappi will start to be heavily scrutinized:

1. One needs to feel safe to let the technical/pro into one's home.
2. There needs to be a consistent level of quality and the ability to have the same pro come each month. How is Rappi measuring ST?
3. What is the hiring/onboarding process for RTs and "Pros" currently?
 - a. What is the current requirements to becoming a RT?
 - b. What sort of background checks are performed on potential RTs?

⁹ <https://www.las2orillas.co/asi-no-lo-crea-rappi-colombia-cobro-825-300-por-12-emapandas>

¹⁰ <https://www.producthunt.com/live/simon-borrero>

- c. What will be the onboarding/training of Pros?
- d. Has there been any issues in RT? Serious incidents?
- e. How will Rappi ensure constant wide scale trust?
- f. How will Rappi vet and verify RT?

Exit

It is very likely that Rappi will IPO and one can point to Delivery Hero, one of Rappi's direct food delivery competition in LATAM, which is expected to have its IPO in Germany summer of 2017 (estimated valuation of USD +\$3B¹¹). We can also look at other examples in the ODE space that have not got public:

Uber: Valuation of USD +\$69B
Didi Chuxing (China): USD +\$25.3B¹²
Ola (India): USD +\$3B (downgraded from \$4.5B¹³)
Grab (Singapore): USD +\$2.3B¹⁴
Instacart: USD +\$2B
Go-Jek (Indonesia): USD +\$1.3B¹⁵
Doordash: USD +\$700M
Postmates: USD +\$600M
Handy: USD +\$500M
Cabify (EU/LATAM): USD \$350M¹⁶

Lastly, LATAM's first IPO Mercadolibre, Inc. (online marketplaces dedicated to e-commerce and online auctions) MercadoLibre (NASDAQ: MELI). MercadoLibre announced on August 9, 2007 it priced its IPO at USD \$18/share^{17 18}.

If all else, it is likely that Rappi could be acquired by Uber as they look to further develop the LATAM market. As of 1Q17 Uber's top 3 markets are US (#1), Mexico (#2) and Brazil (#3)^{19 20}, acquiring Rappi can expand Uber's services beyond food delivery in LATAM. It may be possible that Amazon or Walmart may acquire Rappi as they expand into LATAM and use Rappi as a last-mile service to augment their online businesses. The last possible outcome is that an incumbent large big box retailer based in the region such as Cencosud, Grupo Éxito or Walmart (Walmex) might acquire Rappi.

Even though there are many competitors (and many future copycats) in this space, none has become recognized as a major brand as Rappi along with strong growth metrics. This analysis will point that Rappi not only has the entrepreneurial drive to surpass valuations of +\$1B²¹ by late 2018 (making them one of the first unicorn startups since MercadoLibre), win in the ODE space particularly in emerging markets and end up becoming the first startup to IPO from LATAM since Mercadolibre. It is very possible that Rappi could become a formidable competition against Amazon and Walmart in LATAM in the future.

¹¹ <https://www.reuters.com/article/us-delivery-hero-m-a/delivery-hero-buys-foodpanda-in-sought-after-food-delivery-market-idUSKBN13Z0G5>

¹² <https://techcrunch.com/2016/06/15/didi-7-billion>

¹³ <http://www.livemint.com/Companies/1JD3K6o1H0lnAhpwSH9XfO/Ola-valuation-falls-to-3-billion-after-SoftBanks-investmen.html>

¹⁴ <https://techcrunch.com/2016/08/04/grab-burn>

¹⁵ <https://techcrunch.com/2016/08/04/indonesias-go-jek-raises-550-million-to-battle-uber-and-grab>

¹⁶ <https://techcrunch.com/2016/04/20/cabify-raises-120m-at-a-320m-valuation-led-by-rakuten-to-take-on-uber-in-latin-america>

¹⁷ Between Mar 1 and April 28, 2017, shares of MELI increased 8.40% with a share price of USD +\$210

¹⁸ Roughly a week after the IPO eBay's 18.5% stake alone was worth about USD \$330M.

¹⁹ <https://www.recode.net/2016/4/4/11585804/meet-the-companies-trying-to-dominate-the-latin-american-ride-hail>

²⁰ <https://www.seattletimes.com/business/uber-looks-to-dominate-in-brazil-while-taxis-push-to-ban-app>

²¹ <https://techcrunch.com/2013/11/02/welcome-to-the-unicorn-club>

Thoughts

I came across Rappi my first week living in Bogota Feb 2016. I've used the mobile (both iOS and Android devices, since I also had a Colombian number, which is required to use) and desktop app multiple times a day in Colombia and Mexico. The reliability of both apps are the same (in that neither one or the other is worse) and the UI/UX is exactly the same. As a user I found Rappi extremely intuitive (even before I started learning Spanish), easy to use and very reliable. Rappi has a clear value proposition requiring me not to go to a market or any physical location (where the average time during the day would take 25-45 min depending on rush hour traffic to reach), along with checkout (which can take up to 50 mins). Interestingly I even used Rappi to make payments such as rent (where this specific task on average takes 5 hrs, i.e. having to physically go to a specific bank to withdraw and depositing the cash at another bank in another location). I also liked that Rappi had many different offerings as opposed to having to use several different apps.

I believe Rappi is in the best position to become not only a recognizable brand in LATAM but also become a dominant player in the ODE/e-commerce space in LATAM and become the company that will soon follow unicorn startups in the region.

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Summary

Founded by five entrepreneurs from Colombia, Rappi aims to become the everything store of LATAM. Rappi's user base as of 1Q17 is 1MM+ (in Colombia and Mexico) and growing +20% MoM.

Business

1. Rappi is a mobile/web platform that connects users with RT (personal shoppers or taskers) who fulfill orders and/or tasks on-demand 24/7. Rappi is an ODE (on-demand economy) commerce.
2. Available only in Colombia and Mexico, expanding to Brazil at the end of 2017 and Argentina in 2018.
3. Rappi has 6 segments which are:
 - o Market: Deliver anything from any market
 - o Restaurants/Cafe: Deliver anything from any restaurants
 - o Pharmacy: Medicines and other items delivered 24/7
 - o Rappicash: Bank withdrawals up to COP \$400,000 (USD ~\$130) and have it delivered
 - o RappiFavors: Task and/or errands charged by the hour
 - o Home Improvements: Light home improvements

Market

1. LATAM is becoming one of the most attractive e-commerce acceptance markets around the world with USD ~\$40B in 2016, growing at a CAGR of 17% to USD +\$80B

Users

1. 1MM+ users with 30-50% growth in Colombia and Mexico MoM
2. 500K+ downloads w/ 5K+ DAU in Colombia
 - o ~130K+ orders in Colombia per month
3. 150K+ downloads w/ 1.5K+ DAU in Mexico
 - o ~100K-160K+ orders in Mexico per month

Financials

1. Recently raised USD \$52.7M series A and previously raised \$2M in Colombia prior to YC.
2. May 2015-Aug 2016 revenue was USD \$2.7M
3. Aug 2016-Aug 2017 estimated revenue of USD ~\$146M

Competition

1. Big players: Amazon, Walmart, Uber (UberEats), Delivery Hero (LATAM), Deliveroo, Just Eat (Brazil), iFood (Brazil), CornerShop (Mexico and Chile)
2. Small players: Mercadoni (Colombia), Merqueo (Colombia), Mercado Fresh (Brazil)

Team (co-founders and management)

1. Simón Borrero (CEO & Co-founder)
2. Sebastián Mejía (President & Co-founder)
3. Andres Bilbao (Co-founder)
4. Felipe Villamarín (Co-founder)

5. Guillermo Plaza (Co-founder)

Competitive Analysis

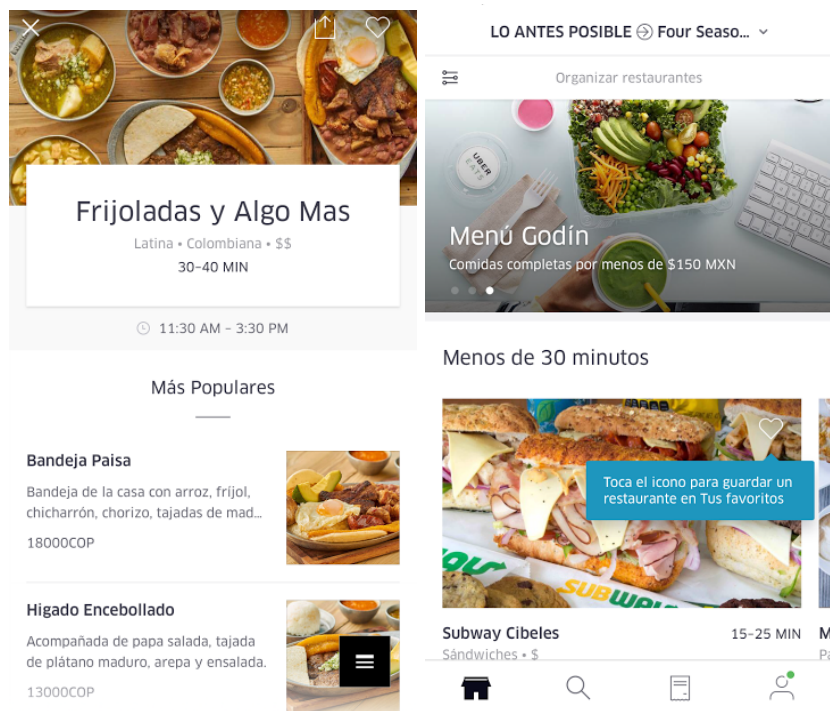
Rappi's immediate competitors are: Uber (LATAM), Mercadoni (Colombia/Mexico), Merqueo (Colombia), CornerShop (Mexico), Delivery Hero (Colombia) and eventually Amazon (Mexico).

1. Uber/UberEATS (in Colombia and Mexico)

UberEATS directly competes with Rappi's food delivery business. Uber has the strongest ability to compete with Rappi's other segments in LATAM mainly due to them being a brand that is recognized (i.e. generally American brands are viewed as a luxury item in emerging markets such as LATAM). Uber operates in Panama, Brazil, Costa Rica, Peru, Colombia, Mexico, Chile, Dominican Republic and Uruguay. Uber had its LATAM debut when it first launched in Mexico City (CDMX) in August 2013 by 2015, Mexico grew to be the company's third largest market.

In 2016, Uber sold its China operations to Didi Chuxing, making Mexico it's 2nd largest country. After Uber expanded into the rest of LATAM, Brazil became it's fastest-growing market with Brazil becoming it's 3rd largest market. It is likely that Uber will be focusing more on LATAM^{22 23}.

Uber officially launched it's services in Colombia in 2015 with availability in most cities in Colombia, connecting more than 450K+ users with 30K+ drivers through uberPOOL, UberBLACK, uberX²⁴. UberEATS launched 2016²⁵, only in Bogota, focusing on upper middle/upper class neighbors such as Usaquén, Chicó, Chapinero and Teusaquillo. Since then, Rappi has expanded throughout Colombia.



²² <https://www.bloomberg.com/news/articles/2016-10-13/can-uber-conquer-latin-america>

²³ <http://money.cnn.com/2016/12/06/technology/uber-latin-america/index.html>

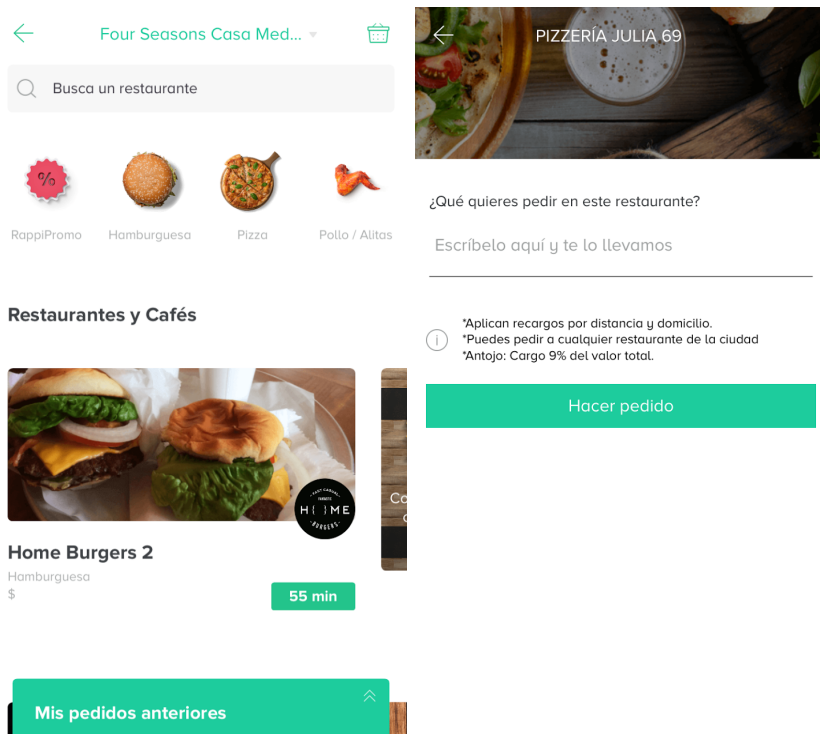
²⁴ <http://www.businessinsider.com/uber-crackdown-in-colombia-2016-6>

²⁵ <http://www.portafolio.co/negocios/lucha-por-los-domicilios-online- apenas-comienza-502316>

UberEATS on iOS in Colombia (Bogota) and Mexico as of 1Q17.

UberEATS vs. Rappi (Restaurants)

Rappi has more restaurant options, along with the option to request from a restaurant not partnered, including those that can't be found on Google Maps (which is common outside Bogota and Medellin), whereas UberEats currently does not allow. Like Rappi, UberEats does not have a minimum on orders. It seems UberEats uses its car network (in Bogota) as opposed to bikes or motorcycle delivery and can still take an hour or longer. UberEats in CDMX is primarily done via bikes/motorcycles and usually is under 30 mins. Delivery times for Rappi in Bogota, Medellin and CDMX usually is 30 mins, where the app routinely states it could take up to 55 mins.



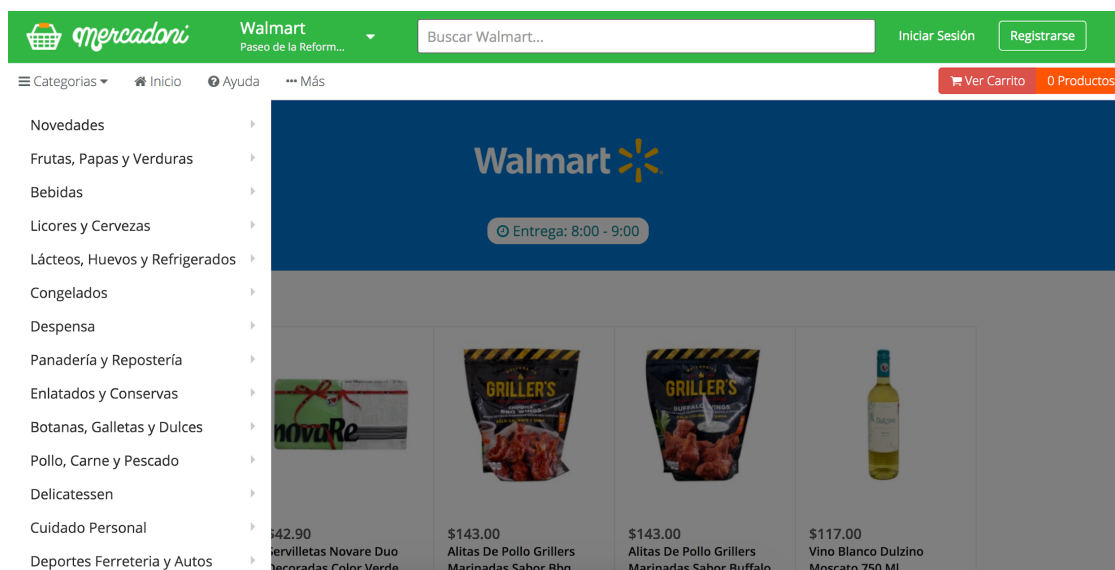
Left shows a partnership restaurant and the right shows a non-partnership restaurant on iOS.

Furthermore, in an article Simon also mentioned that Rappi's prices are the prices of the restaurant and stores, the competitors generally list as the business's prices but are up to 30% higher²⁶. It is possible that in the future Uber may want to compete with other verticals that Rappi is currently engaged in outside restaurants.

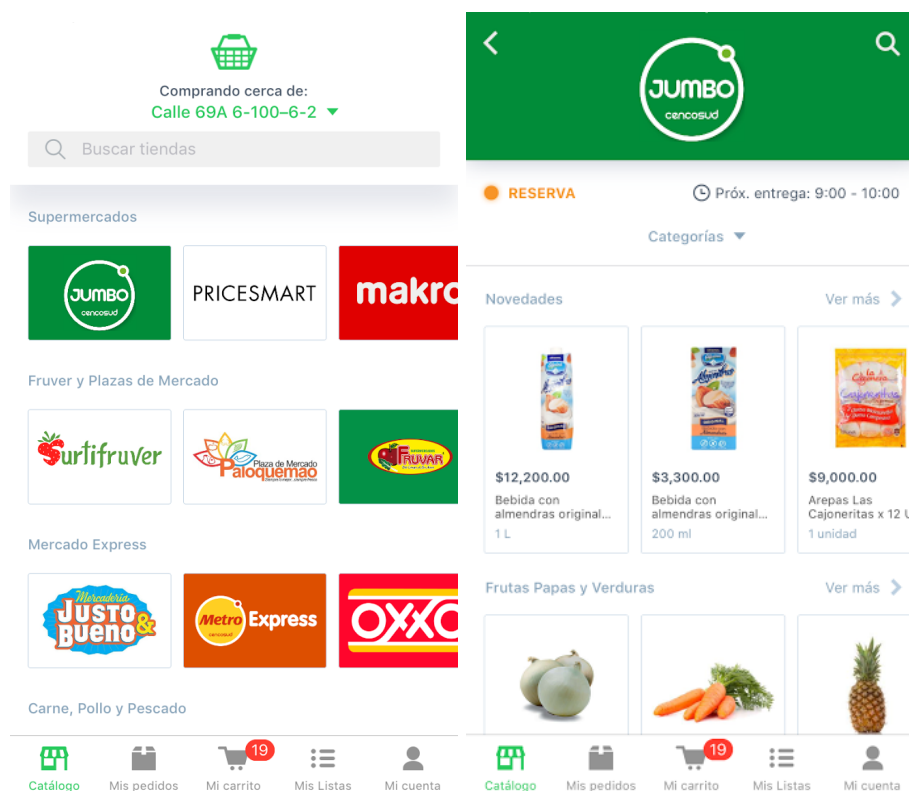
2. Mercadoni

Mercadoni (Internet Services LATAM SAS) competes with Rappi's supermarket segment and is currently available in Bogota, Medellin (Colombia) and Mexico City. The application is available in both Android and iOS. The company enables users to order groceries and other household products through local groceries, pharmacies and other stores. Founded by Antonia Santos Nunes (CEO), Margarida Freitas (COO), Alvaro Burgos (CTO), Mercadoni has raised USD \$2M from Axon Partners Group.

²⁶ <https://www.sdpnoticias.com/tecnologia/2016/10/13/rappi-acusa-a-ubereats-de-jugar-sucio>



Mercadoni's web application (1Q17) from CDMX.



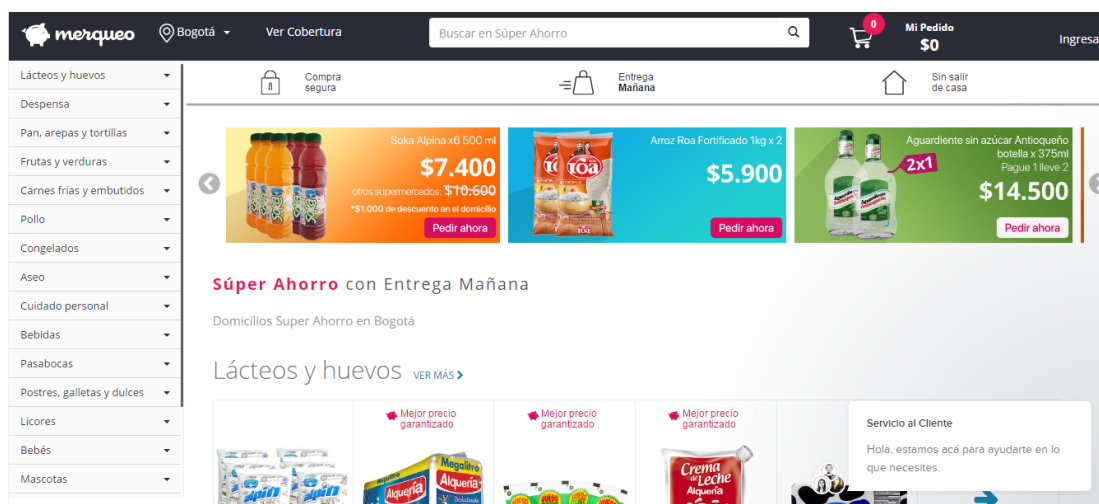
Mercadoni (Colombia) uses the typical type of UI/UX that is common on delivery apps

Mercadoni vs. Rappi

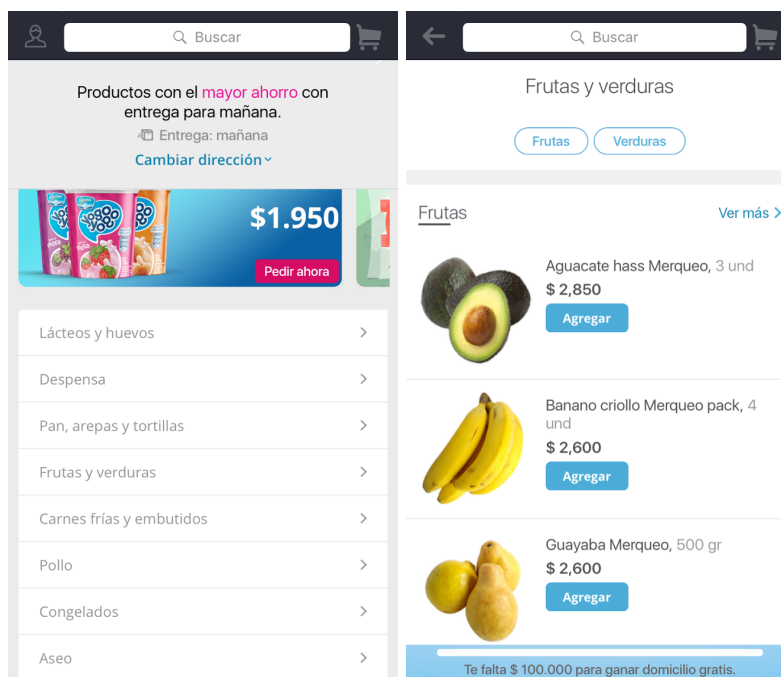
The immediate difference between Mercadoni and Rappi is the price (which is usually USD \$1-2 difference). Mercadoni has a min order of COP \$10,000 (Colombia) and MXN \$100 (Mexico) whereas Rappi does not have a minimum order requirement. Orders placed from the same markets via Mercadoni typically take 10-15 mins longer, as opposed to Rappi.

3. Merqueo

Merqueo (MERQUEO SAS) is an on-demand grocery delivery service from Colombia. Merqueo focuses on the concept of "super saving" where 1K+ products are 25-60% off compared to the branded ones. Merqueo grew 650%+ in GVM²⁷ since launch and generated 180+ jobs²⁸ to serve its 100K+ user base. However, Merqueo is only available in Bogota and expected to fully expand in Medellin 3Q17. Merqueo is founded by Miguel Mc Allister (who co-founded the rather well known on demand food app Domocilios.com) and Sebastian Noguera Escallón and was launched in 2015. To this date (1Q17) Merqueo has raised USD \$2M from Velum Ventures and Nazca Mountain.



Merqueo's web application (1Q17)



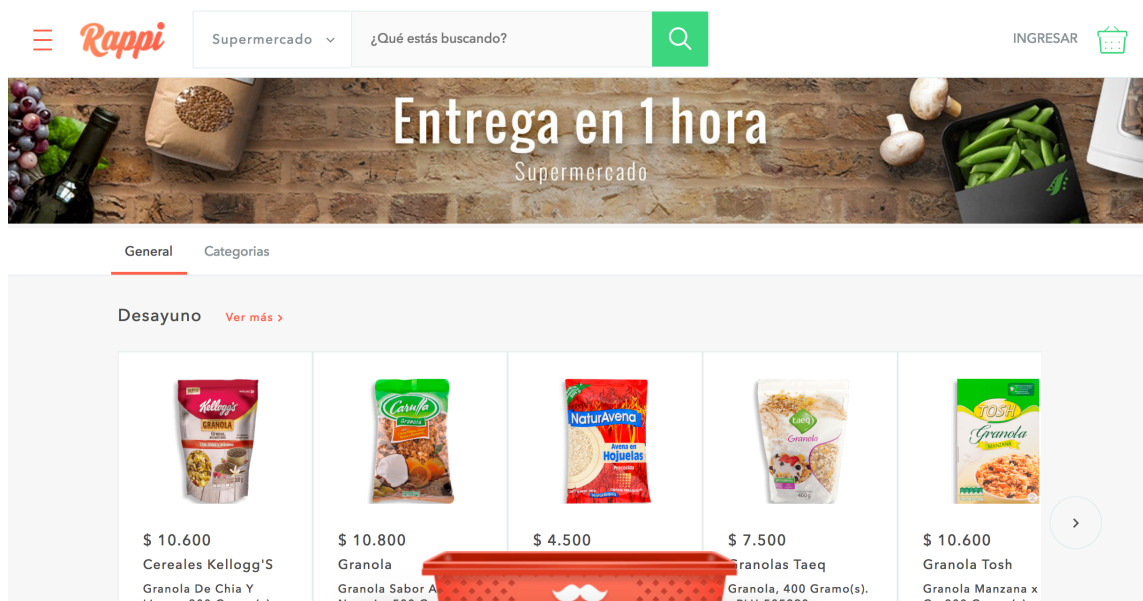
The mobile UI/UX is very similar to Mercadoni (1Q17).

²⁷ <http://www.cmi.com.co/ciencia-y-tecnologia/merqueo-la-primera-aplicacion-que-le-lleva-el-mercado-a-su-casa-a-bajo-costo/414116>

²⁸ <http://www.portafolio.co/negocios/empresas/merqueo-el-supermercado-online-que-ofrece-precios-mas-bajos-504142>

Rappi vs. Mercadoni and Merqueo

In terms of selection, Both Mercadoni, Merqueo seem to have similar SKUs, with Rappi having the most selection out of the two. The immediate difference between Mercadoni and Merqueo is price (which is usually USD ~\$1-2), however Merqueo focuses on having cheaper items for saving as opposed to Mercadoni and Rappi which features typical items one can find at your local supermarket or big box retail store. It is also possible that Merqueo has an edge over some of the other ODE due to the fact that Miguel (Domicilios.com) has a prior exit.

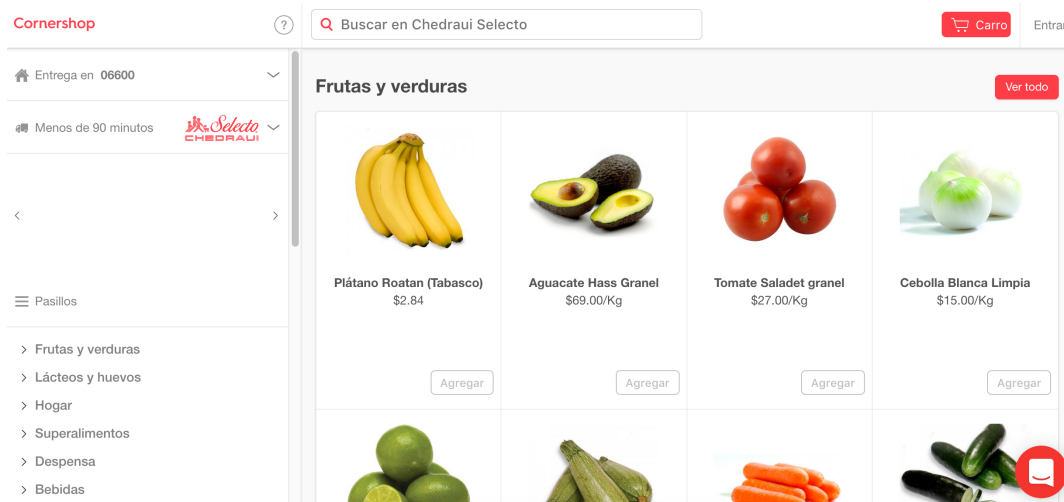


Rappi's Market 1Q17 (web version) featuring the unique "basket".

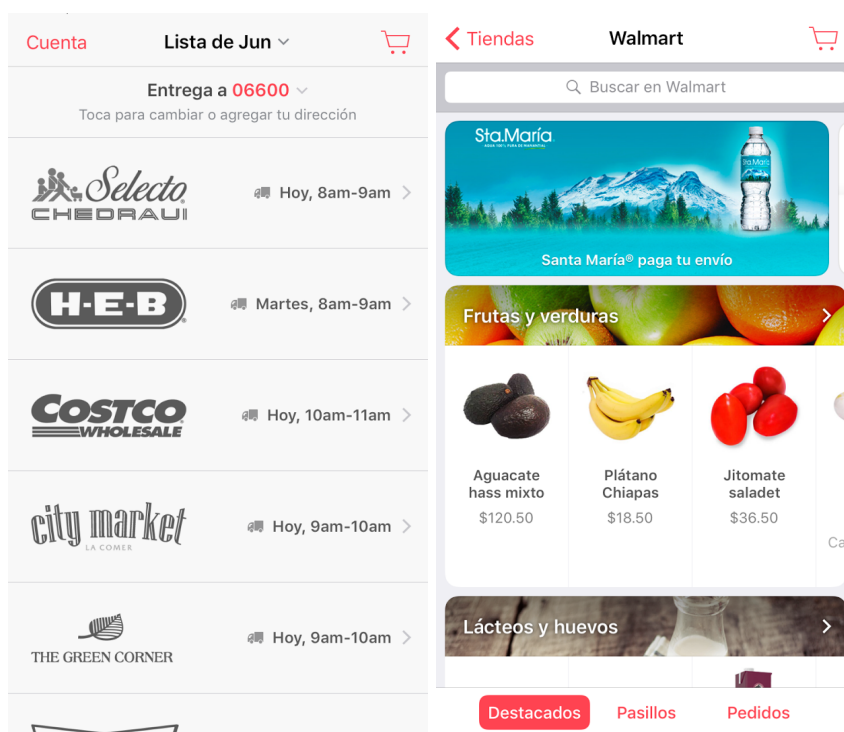
5. CornerShop

CornerShop is an ODE company focusing on grocery delivery service that operates in Chile and Mexico. CornerShop was founded in March 2015 by Oskar Hjertsonsson (CEO), Daniel Undurraga (CTO), Juan Pablo Cuevas has raised a total of USD \$31.6M, with recently series B of USD \$21M announced May 2017²⁹. Cornershop raised capital from Accel Partners, Jackson Square Ventures, ALLVP, Grupo Bimbo and angel investors such as Christian Wiklund, Wences Casares, Ariel Poler, Alex Torrenegra. Oskar also co-founded Needish Inc. in Chile which was acquired by Groupon in June 2010, where he built and led Groupon LATAM.

²⁹ <https://www.crunchbase.com/organization/corner-shop>



CornerShip's web application (1Q17).



CornerShop 1Q17 features less store options as opposed to Rappi.

CornerShop vs. Rappi

CornerShop, much like Mercadoni and Merqueo, focuses on retail stores (specifically big box and traditional supermarkets). CornerShop's strategy focuses on the partnership with retailers Costco, Superama, Chedraui Selecto to offer lower prices and delivering purchased items later in the day, whereas Rappi is focused on ASAP. CornerShop's focus is also having 100% of a particular store online, whereas competitors routinely put (often popular) select items.

CornerShop charges MXN \$69 (USD ~\$3.70) to \$99 (USD ~\$5.5) for delivery if you buy less than MXN \$300 (USD ~\$16) which is significantly higher than Rappi's MXN \$20 (USD ~\$1).

6. Delivery Hero

Delivery Hero much like Uber is another main competitor in LATAM. In Colombia, Delivery Hero operates Domicilios.com (which was acquired for USD ~\$50M) and in other parts of LATAM as PedidosJa and PedidosYa.

Domicilios.com

In Colombia, domicilios.com has managed to position itself as the number one application among Colombians in ordering food at home easily and safely. Currently, the app has 5.5MM+ visits per month, affiliated to 4.5K+ restaurants in Peru, Ecuador, and Colombia, brings together 340+ employees and its 80% YoY growth.

7. Amazon.com

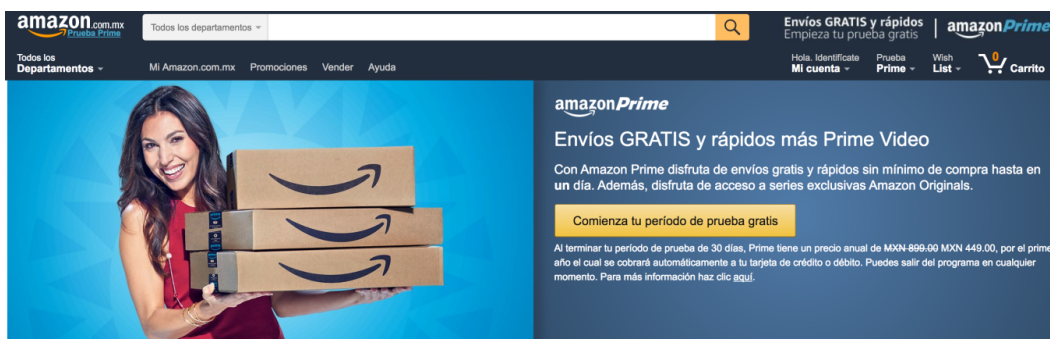
Although not a direct competition to Rappi at the present time, it is widely assumed that Amazon may become Rappi's biggest competitor through Amazon Prime and eventually AmazonFresh.

Amazon Prime

In March 2017 Amazon launched Prime for Mexico roughly two years after launching Amazon.com.mx.

Prime membership in Mexico costs: MXN \$449 (USD \$23) before increasing to MXN \$899 (USD \$46)

The Prime membership includes video-streaming services similar to the US. Free one-day shipping is only available to members in Mexico City, Guadalajara, Puebla, and Querétaro, and free two-day shipping is available throughout Mexico.



Screen cap of Amazon Prime in Mexico (1Q17).

Envío GRATIS en 1 o 2 días en envíos desde México

Con tu membresía de Amazon Prime obtén envíos GRATIS ilimitados sin mínimo de compra en millones de productos, incluyendo: envíos gratis en un solo día a la Ciudad de México, Guadalajara, Puebla y Querétaro o en 2 días para el resto del país (excepto áreas con cobertura limitada) para productos enviados por Amazon México y envíos gratis en 6 a 9 días en productos enviados desde Estados Unidos por Amazon EE.UU.

AmazonFresh

AmazonFresh is a grocery delivery service currently available in some US states, London, Tokyo, and Berlin. Amazon has been expanding into groceries since it launched its AmazonFresh delivery service a decade ago in Seattle. Amazon's recent acquisition of Whole Foods is taking a different path from online competitors like Shipt, Instacart, and Peapod, which use existing retailers to deliver groceries and avoid holding inventory. Amazon instead is using refrigerated

distribution centers to hold items. But it has been struggling to find a profitable model. Since it is unlikely that groceries will go purely online, rather it will be a hybrid model, where people use a mix of online ordering, restaurants and traditional grocery stores.

AmazonFresh costs USD \$14.99/month. Based on Prime Mexico costs it is likely that Amazon may price Fresh in LATAM at USD \$6.99/month or less.

Comparing this to Rappi at 2x a week (at USD \$2 per delivery) for 1 month = USD \$16 which is slightly more expensive to Fresh.

Amazon, however, faces the challenges in addressing the largely unbanked population in Mexico, as well as many other LATAM countries. The advantage that Rappi has currently over all competitors is that they take cash payments whereas others don't.

Market, Industry & Trends

Rappi initially focused on the retail industry in LATAM, which alone is a USD +\$300B market. Because a large portion of the industry is still offline³⁰, this provided Rappi with a B2B opportunity on top of its B2C model. According to Rappi, the world industries are selling 20-30% online, while supermarket sales on digital platforms are below 3% in the US, and in Colombia less than 1%³¹ offering a large opportunity.

With smartphone penetration at:

1. 44.9% (2016) up from 39.3% (2015) in LATAM³²
2. 51.4% (2016) up from 47.4% (2015) in Mexico³³
3. 57.4% (2016) up from 51.4% (2015) in Colombia³⁴

Assuming Rappi can take at least 1% of the industry online, it would still be an estimated USD ~\$3B business.

E-commerce in LATAM

LATAM is one of the fastest-growing regions for e-commerce (aka online retail in LATAM), behind APAC. Online retail sales are expected to grow at a CAGR of 17% between 2014 and 2019 and reach USD +\$85B.

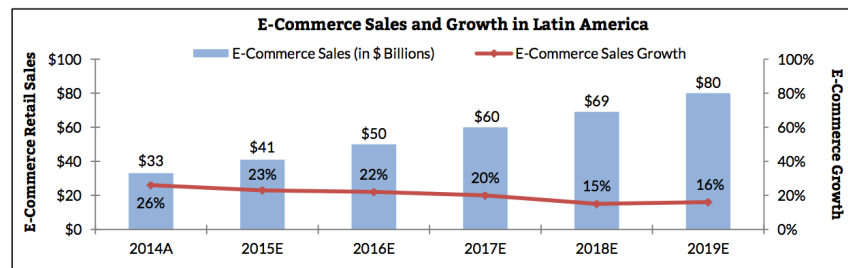
³⁰ <http://startupbrics.com/colombia-mercadoni-latin-america/#.V-tOFZMrKR8>

³¹ http://www.bbc.com/mundo/noticias/2016/01/160112_colombia_economia_tecnologia_negocios_app_rappi_compra_supermercado_nc

³² <http://www.emarketer.com/Article/Latin-America-Home-1559-Million-Smartphone-Users/1012794>

³³ <http://www.emarketer.com/Article/Latin-America-Home-1559-Million-Smartphone-Users/1012794>

³⁴ <http://www.emarketer.com/Article/Latin-America-Home-1559-Million-Smartphone-Users/1012794>



(Source: eMarketer)

Rappi's initial focus was Colombia³⁵ which proved to be a successful test bed. The Colombian Chamber of Electronic Commerce (CCCE) reported e-commerce in Colombia grew 64% from 2.63% (in 2014) to 2015 representing 4.08% of Colombia's GDP³⁶.

Brazil (a target market of Rappi) currently is the largest e-commerce market in LATAM, accounting for 42% of LATAM's USD \$50B in e-commerce sales. Despite the economic downturn in Brazil currently, the market is still projected to rise at a CAGR of 12.5%³⁷.

Mexico is the second-largest e-commerce market. Mexico currently accounts for 12.3% of the region's total e-commerce activities and is expected to increase to 15.6% by 2019³⁸. It is estimated that by 2018, Mexico will reach USD +\$11B in e-commerce sales.

US retailers are investing heavily in building out country-specific e-commerce businesses in LATAM.

- Walmart recently redesigned its country-specific site in Brazil and is finalizing construction of three new e-commerce fulfillment centers in the country — doubling its current fulfillment network.
- Amazon recently has investing heavily in Mexico³⁹, launching a Spanish-speaking version (and redesigned to be local to Mexico) of amazon.com as amazon.com.mx.

Startups in LATAM

Investing in any startup in LATAM presents itself as an interesting opportunity since the startup ecosystem throughout LATAM is sufficiently developed, making flow and ease of doing early-stage deals improved significantly. LATAM PE and VC investors remained active throughout 2015 despite macroeconomic headwinds, with USD \$6.5B⁴⁰ deployed through 310 deals. Furthermore, FY15 generated a total of USD \$3B from 46 partial or full exits (prior investments).

1. With the conversion rate between most LATAM currencies favoring USD (in the case of Colombian Peso to USD 3:1), this makes investing in LATAM startups highly attractive for US investors.
2. Internet penetration in 2016 was 386MM+ or +63.0% of LATAM⁴¹ population.
3. Smartphone penetration in 2016 was +55%⁴² and expected to grow with a CAGR of +70% by 2020.

³⁵ revistas.usergioarboleda.edu.co/index.php/ceye/article/download/553/470

³⁶ https://www.crcm.gov.co/recursos_user/2017/ComElecPtd_0.pdf

³⁷ Business Insider: The Latin America E-Commerce Report

³⁸ Business Insider: The Latin America E-Commerce Report

³⁹ <https://www.reuters.com/article/us-amazon-mexico-exclusive/exclusive-amazon-plans-mega-warehouse-for-mexico-growth-spurt-idUSKCN1B01RD>

⁴⁰ Latin American Private Equity & Venture Capital Association: 2015 LAVCA Industry Data, 2016 LAVCA Industry Data

⁴¹ <http://www.internetworldstats.com/stats2.htm>

⁴² <https://www.gsmaintelligence.com/research/?file=9e927fd6896724e7b26f33f61db5b9d5&download>

Rappi was part of Y Combinator's (YC) W16 class and the second startup from Colombia to be part of YC, after Platzi (YC W15). Furthermore they are following current LATAM startups such as NuBank (valuation of USD +\$500M), Movile, Easy Taxi (USD +\$1B), PSafe, Navent, iFood, VivaReal (USD +\$550M).

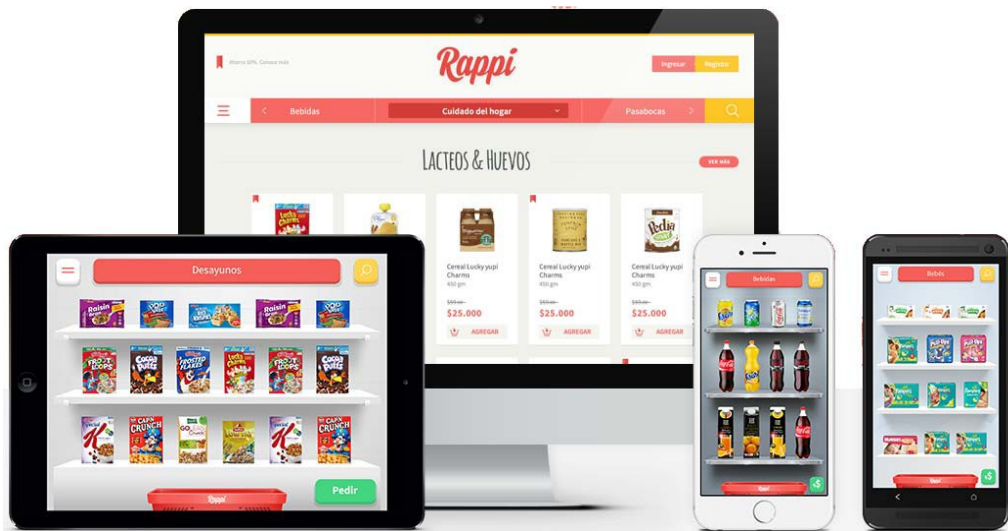
Colombian Tech Sector

Out of all startup markets (ex-Brazil), I believe Colombia is well positioned to become one of LATAM's most promising tech hubs⁴³, with successful startup examples such as Platzi, FLUVIP, Hogaru, OFI.com.co, Tappsi and Torre (formerly Bunny Inc.).

1. Despite falling oil prices (where petroleum makes roughly 45% of its export) and consumer growth of 2% in 2017 and 2.6% in 2018⁴⁴, between 2007-2012, Colombia's tech industry grew with a CAGR of +177% to a total of USD +\$6.8B⁴⁵ (with Bogota and Medellin being central to technological development).
2. Colombia is the third largest provider of IT in LATAM (after Brazil and Mexico) and generates roughly USD \$2.5B⁴⁶ in revenue yearly.

Product

Rappi first started with five guys giving away donuts⁴⁷ on the streets of Bogota to get people to download and try the app in 2015. It was a simple concept for customer acquisition - If you wanted a free doughnut, you had to download the app. Interestingly, not only did customers download the app, but people started using it more often because it was "hyper-local" offering the things that people want and use/buy as opposed to an foreign company in Colombia.



The Rappi platform as of 1Q17 (source: rappi.com).

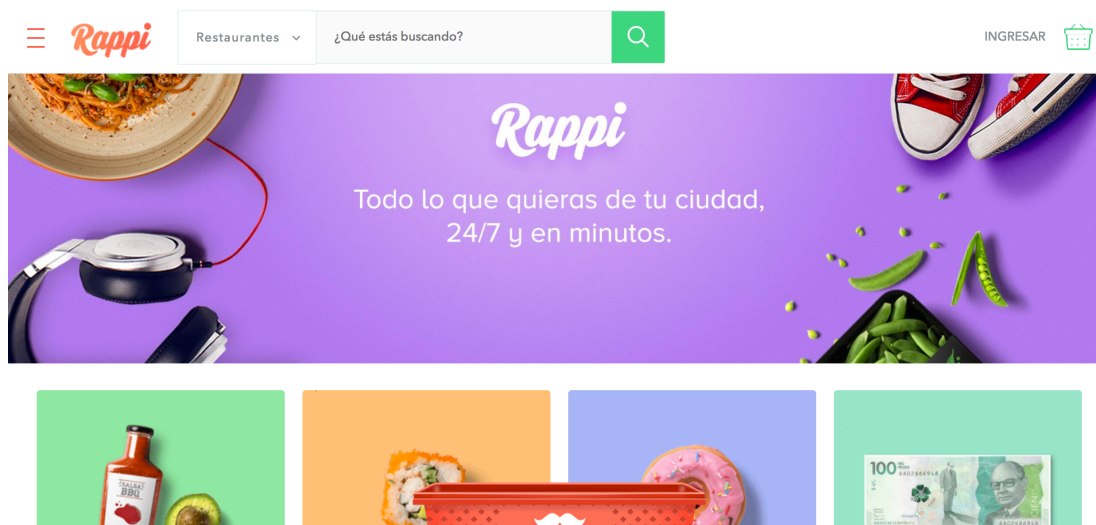
⁴³ <https://techcrunch.com/2014/11/22/an-overview-of-colombia-one-of-latin-americas-most-promising-new-tech-hubs>

⁴⁴ BBVA Research: Colombia Outlook Q1 2017, Colombia Outlook Q2 2017

⁴⁵ <http://money.cnn.com/2015/03/13/investing/colombia-tech-silicon-valley>

⁴⁶ <https://www.forbes.com/sites/jeanbaptiste/2016/10/03/6-tech-companies-from-colombia-to-watch/#cd7e5096cec5>

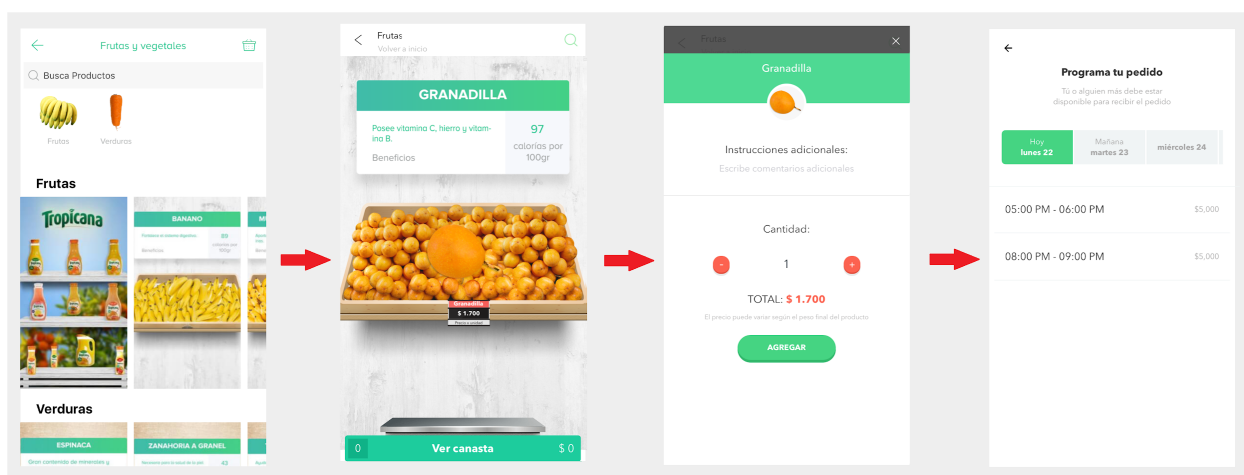
⁴⁷ A box of 10 plain glazed donuts in Colombia cost roughly COP \$22,500 (~USD \$8) at Dunkin Donuts COP \$26,000 (USD \$9) at Krispy Kreme



Rappi website's homepage (actual screenshot 1Q17).

Rappi uses an interesting (very beautiful) UI/UX on both desktop and mobile that replicates an actual shopping experience where the users select pseudo “3D” products displayed as they would be in a physical store. The users would swipe items into a basket or a cart as you would at a typical brick-and-mortar store. Searching for items particularly in the market or pharmacy is almost like searching for an item at a store - users also have the option to directly search an item should they choose.

Rappi's actual underlying platform, which most likely the founders license through Grability, is also used by the largest drugstore chain in Colombia, La Rebaja Movil, and with Olimpica, Colombia's second largest supermarket chain. Based in the US, Grability (founded in 2013) developed the sales platform system (US patent pending) for the products users slide “into” the basket for purchase. Users can also do the same thing on the website as well. This patented method makes shopping on a mobile app easier, instead of laboriously wading through long lists of items which are common with many competitors.



An actual order flow showing it's ease on iOS 1Q17 (start to finish) from Express/Market where I order my favorite fruit

Requested services are fulfilled by RT⁴⁸ (aka rappideros or rappis), who are contractors that travel to a request via bicycle or motorcycle (more or less in order to weave in and out of traffic). Rappi relies on 2K+ RTs (as of 1Q17⁴⁹) and is estimated grow to 4K+⁵⁰ by May 2017, with the hope of 10K+ RTs by the end of 2017. Both customers and the RT have the application in their phone and rely on GPS tracking to determine their location and routes. The company matches a request to the closest messenger to guarantee the fastest delivery time.

One of the key enablers for Rappi's success is its promise to the RTs (unlike traditional ODE companies) starting with RTs keeping 100% of the delivery fee along with allowing flexible work hours. One of the main requirements is that the RTs own a bike or motorcycle (which are not supplied by Rappi). In Colombia a typical messenger earns about COP \$5,000/hr (USD ~\$2). RTs can earn around COP \$20,000/hr (USD ~\$7) and a monthly salary around COP \$3,190,000 (USD ~\$1,120) vs the monthly minimum wage standard which is COP \$737,717 (USD ~\$246). Simon mentioned Rappi's profit sharing unlike Uber, which is somewhat a "corporate multinational" and that "they do not understand that we are Latino, we are much more human. The network of RT has been built very strong, they help each other in the orders, it is something that is not going to be able to knock down silver as they are doing".

In Colombia users pay a delivery fee between COP \$5800 (USD ~\$2) to COP \$11580 (USD ~\$4) depending on the service or request with the expectation that the orders will arrive within 1 hour.

Pricing in Mexico is as follows:

- MXN \$20 (USD ~\$1) delivery from retail store and pharmacy
- MXN \$40 (USD ~\$2) delivery from restaurant and supermarket
- MXN \$50 (USD ~\$2.50) for cash (one can request up to MXN \$2,000/USD ~\$100)
- MXN \$85 (USD ~\$4.50) per hour for favors and tasks

It is also noted that an estimated 60-65% of orders are still paid in cash, given that LATAM is still predominantly a cash economy, while the rest are paid via the app, using credit and debit cards.

Rappi currently has six categories:

1. Market/Express: 24 hour delivery from supermarket or express store
2. Restaurant and Cafes: 24 hour delivery from restaurant (depending on availability)
3. Pharmacy: 24 hour delivery from pharmacy or in-house service.
4. RappiCash: Because LATAM is still predominantly a cash economy, an RT will bring you cash (instead of waiting in line for a withdrawal which can take upwards of an hour) within 15-30 mins and the amount is charged to your card.
 - You can also send cash with RappiCash much like Venmo or PayPal (which similar companies do not exist in LATAM).
 - This feature accounts for 5%⁵¹ of the total GMV.
5. Technical Service: on-demand home repair such as electrician or plumbing, plumbing is about COP \$30,000 (USD ~\$10). This business is a lot like Handy (or Hogaru).
 - It might be possible that Rappi may acquire Hogaru in an effort to expand this business instead of developing it internally.

⁴⁸ Video on RT recruitment and what the job entails (in Spanish) <https://www.youtube.com/watch?v=SEttGmGjn98>

⁴⁹ <http://blog.rappi.com/2017/03/01/rappi-le-apuesta-cerrar-el-ano-con-10-000-rappideros>

⁵⁰ <https://www.entrepreneur.com/article/294361>

⁵¹ <http://fortune.com/2016/11/08/rappi-delivery-latin-american>

6. RappiFavores⁵²: RT at an hourly rate, much like TaskRabbit. One can use them to make payments, take a pet for a walk, or do any miscellaneous tasks one might need, some of the strange (and random) requests are:
- An RT to peel an onion
 - An RT to take someone's grandma out for a walk
 - An RT to be an extra player for a video game
 - An RT to give a hug



Rappis are easily recognizable by the bright orange color scheme

CashBack

An interesting strategy that only Rappi is using, is CashBack⁵³ a concept that is not commonly used in physical stores throughout LATAM (although some such as Jumbo and Exito have them but are confusing to use). The program awards frequent users in the form of RappiCredit which are virtual currency (within the Rappi ecosystem) that can be applied to future orders and is credited to the user's account. This type of program will be crucial in developing brand loyalty and generating stickiness as competitors and copycats arise.

Technology Stack (as of 1Q17)⁵⁴

⁵² <http://blog.rappi.com/2016/08/09/el-rappifavor>

⁵³ <http://www.rappibusiness.com/promociones/2017/4/3/30-cashback-en-rappicash-por-rappi>

⁵⁴ <https://siftery.com/company/rappi>

Front-end

- Vue/Vuex
- HTML5
- CSS3/ Stylus
- Angular 2
- JADE
- Javascript/NPM/webpack/React/Ember.js
- Algolia
- JAVA
- Swift
- Karma/Jasmine
- Agile/TDD/BDD
- ES6

Back-end

- PHP/Codelgniter
- Python
- Larvel
- Redis
- PostgreSQL
- MySQL
- mongoDB
- Gulp

Product & Design

- Google Fonts

DevOps & IT

- WordPress
- Nginx
- AWS EC2
- Amazon Route 53
- MediaElement.js

Analytics & Data Science

- Google Analytics
- FullStory

Marketing

- Facebook Sign-In
- Google Sign-In
- Mandrill
- OneSignal
- ShareThis

Operations

- Intercom
- G Suite

- Wiplo

Team

Rappi originally started as an internal project from another startup venture Grability Inc., which is an app development company that is known for developing software for Spanish retail giant El Corte Inglés (Hipercor and SuperCor). From Grability, Rappi was founded by Simón Borrero, Sebastián Mejía, Andres Bilbao, Guillermo Plaza, Felipe Villamarín, with the vision of delivering anything at home. Despite having somewhat limited experience and not having any Silicon Valley or “tech” experience, the founders at Rappi are executing well and positioning Rappi for success.

Simon Borreo⁵⁵ (Co-Founder, Board Member & Chief Executive Officer) is a serial entrepreneur from who worked on several startups prior in Colombia where he was the founder of elecciones.com.co (voter and candidate information for Colombia), Ventravista (an HR platform specific to LATAM), Imaginamos (an app development & consulting firm based in Bogota), and most recently was one of the co-founders of Grability. Simon is a graduate of Universidad de los Andes (Uniandes) in BBA in business administration.

Sebastián Mejía (Co-Founder, President & Board Member) started his career at G2 Investment (investment advisory firm started by J. Todd Morley, who is the co-founder of Guggenheim Partners) focusing on LATAM, after being educated in Spain. Sebastian was one of the co-founders who worked on Grability. Sebastián is a graduate of Universidad Autónoma de Madrid in economics.

Andres Bilbao (Co-Founder) Along with Simon and Sebastian is a co-founder of Grability. Prior to Grability, Andres spent time at McKinsey in several countries (Sydney, Chicago, Mexico City) and left as an engagement manager. Andres is a graduate of Uniandes in mechanical engineering and has an MBA from Dartmouth, The Tuck School of Business.

Felipe Villamarín (Co-Founder) started his career in business development at Imaginamos, where he worked with Simon and was part of the original team that built Grability as well. Felipe is a graduate of Uniandes in BBA in economics.

Guillermo Plaza (Co-Founder - however it is unclear if Guillermo is a co-founder or a founding team member) started his career with Adsmovil (mobile marketing firm that focuses on US Hispanic/Latino and LATAM markets). Guillermo is a graduate of Boston College in psychology.

Company Metrics (not company supplied)

Officially launched in June 2015, Rappi became one of the fastest (if not the fastest) growing startups in LATAM, achieving 100K+ users in less than a year. Rappi recently further expanded in

⁵⁵ Interview with Simon (in Spanish) <https://www.youtube.com/watch?v=fU7x-MApm2o>

Mexico and currently has 1MM+⁵⁶ users in both Colombia and Mexico, it is one of the most popular and widely downloaded apps (Android and iOS) in both Colombia and Mexico.

Since the launch of 2015:

1. 500K+ downloads with DAU of 5K+ in Colombia
2. 150K+ downloads with DAU of 1.5K+ in Mexico
3. 5K+ downloads/day in both Colombia and Mexico^{57 58}
4. 130K+ orders average per month in Colombia
5. 100K-160K+ orders average (70K+ in CDMX) per month in Mexico

Rappi currently has contracts with:

1. Cencosud (4th largest grocery chain in LATAM, also owns Jumbo, Metro, Easy in Colombia)
2. El Corte Inglés (Spain)
3. Walmart de México y Centroamérica (Walmex)

Rappi has contracts to help companies interact with their customers⁵⁹ by developing a virtual shop⁶⁰. Rappi is in negotiations with other large/hypermarket companies in the world such as Cencosud (Jumbo and Santa Isabel) which will boost its network and coverage as well set up for entrance into Argentina and Chile.

Rappi's also relies on partnerships with stores and restaurants where Rappi takes a 15% commission from merchants for each order and charges delivery fees to the customers. Placement deals account for 55% of Rappi's revenue, while the rest comes from the 15% cut it takes from partner merchants for each order and additional fees for handing out product samples to its customers.

Revenue

It is estimated that Rappi is growing somewhere between 25⁶¹-60%⁶² MoM with Mexico being at 59%⁶³ and started with USD +\$2.7M/per month since August 2016⁶⁴. On average, according to the official blog, Rappi has a 35% monthly rate just in GMV (gross merchandise volume) through market and restaurants and sold about USD +\$4M⁶⁵ in GMV in October 2016.

If we start with USD \$2.7M (August 2016 reported revenue) and forecast 12 months at 42.5% MoM growth (average of 25 and 60% growth - the cost of living between Colombia and Mexico are virtually the same) which shows a revenue of TTM (trailing 12 months) of USD \$439M - this represents best case scenario for Rappi.

⁵⁶ <http://blog.rappi.com/2017/03/01/rappi-le-apuesta-cerrar-el-ano-con-10-000-rappitenderos>

⁵⁷ <http://www.elcolombiano.com/negocios/rappi-quiere-renovar-los-domicilios-en-medellin-DH4922234>

⁵⁸ <http://blog.rappi.com/2017/03/01/rappi-le-apuesta-cerrar-el-ano-con-10-000-rappitenderos>

⁵⁹ <http://www.elespectador.com/noticias/economia/colombia-necesita-mas-emprendedores-los-fundadores-de-r-articulo-669759>

⁶⁰ http://www.bbc.com/mundo/noticias/2016/01/160112_colombia_economia_tecnologia_negocios_app_rappi_compra_supermercado_nc

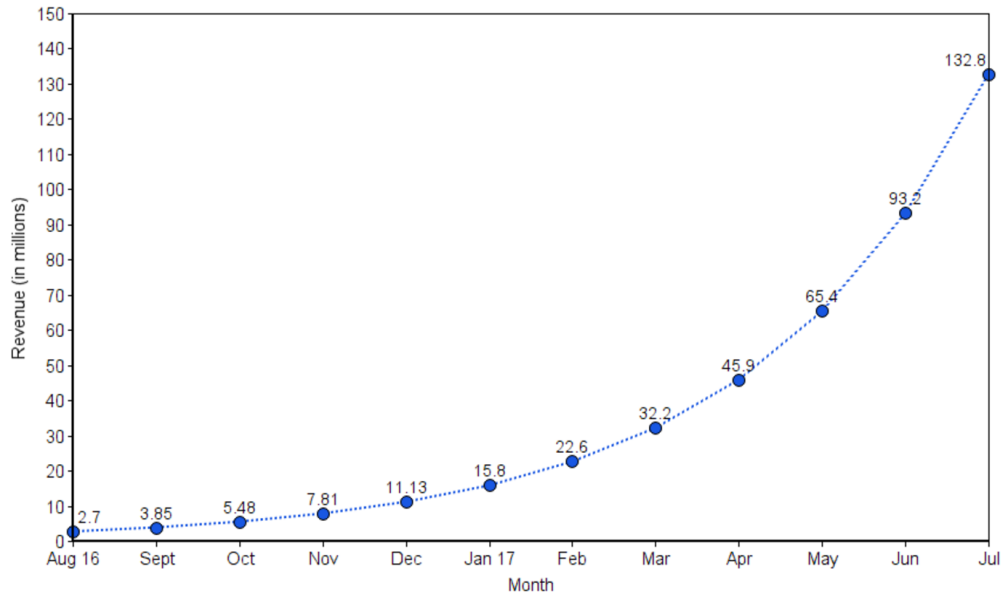
⁶¹ http://www.milenio.com/tendencias/rappi-monterrey-adan_ramos-milenio-noticias-monterrey_0_958104505.html

⁶² <https://lavca.org/2016/07/27/andreessen-horowitz-invests-colombian-app-rappi-en-espanol>

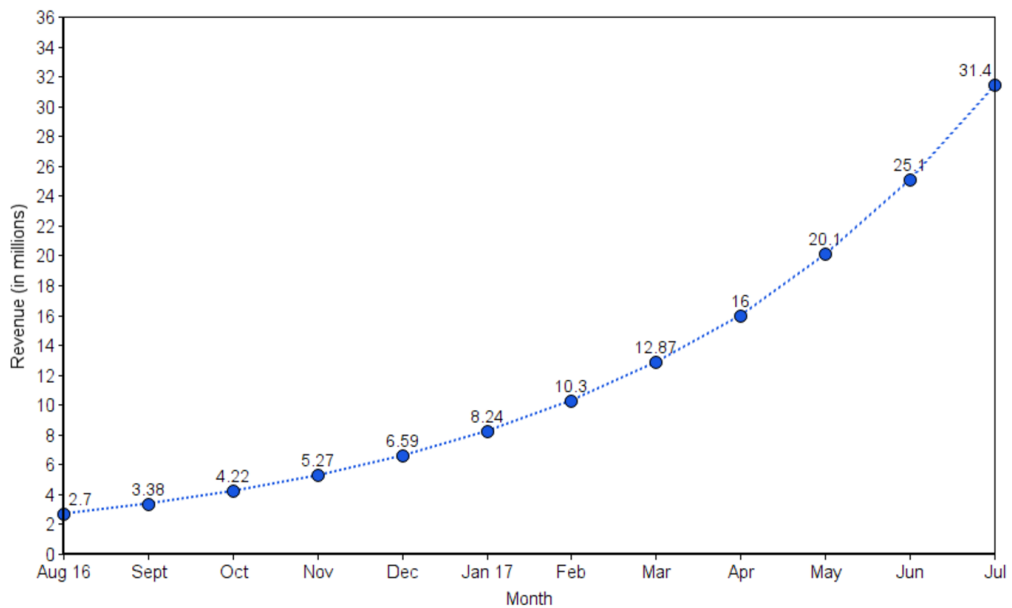
⁶³ <http://eleconomista.com.mx/tecnociencia/2017/01/24/rappi-alista-su-expansion-guadalajara-monterrey>

⁶⁴ <http://www.elespectador.com/noticias/economia/rappi-empresa-cambio-forma-de-comprar-el-celular-articulo-647671>

⁶⁵ <https://www.forbes.com.mx/esta-app-colombiana-quiere-transformar-el-e-commerce-en-al>



Worst case scenario, even if Rappi's growth rate is 25% MoM, Rappi's projected revenue is still USD \$146.4M based on TTM just in Colombia and Mexico. At a 12 month revenue estimate between USD \$146-440M, this sufficiently represents a large opportunity and a fast growing company. These numbers do not account for enterprise partnerships and B2B sales that Rappi also currently has.



Based on a leaked P&L of Postmates by Techcrunch and projected revenues - we can deduce that Rappi can reach around the same level of revenue - given they expand to the rest of LATAM as well as other emerging markets around the world.

1. At what point does the monthly growth peak off?
2. After Rappi has expanded into every country in LATAM what the GMV and revenue will be?

Postmates P&L					
\$000s					
	2014A	2015E	2016E	2017E	2018E
Revenue	\$8,604	\$55,413	\$249,645	\$594,197	\$1,038,046
Growth %		644.0%	450.5%	238.0%	174.7%
COGS	7,578	44,155	188,999	429,768	739,870
Gross Profit	1,026	11,258	60,646	164,429	298,176
Margins %	11.9%	20.3%	24.3%	27.7%	28.7%
Operating Expenses					
Salaries	7,196	18,674	30,832	45,260	60,106
G&A	2,894	4,650	5,697	7,294	9,573
Technology	338	803	1,341	2,364	3,910
Operations	4,839	8,682	16,035	29,102	49,646
Marketing	1,640	4,617	10,784	19,392	31,522
Other	67	64	99	102	99
Total OpEx	16,974	37,490	64,788	103,514	154,856
EBIT	(15,948)	(26,232)	(4,142)	60,915	143,320
Margins %	-	-	-	10.3%	13.8%

(Source: Techcrunch⁶⁶)

Expansion

Even though funding has been decreasing for ODE companies, the sector continues to grow globally. The trend has been driven only by a decline in mega-deal funding, and does not reflect trends at the very early stages. Despite this, Rappi has grown in the region and maintains positive gross margins⁶⁷. Rappi also claims that their operations in a new market (brand new city) will become profitable after 25 days of initial launch.

Rappi is available in the following cities in Colombia: Bogota, Barranquilla, Medellín, Cali, and Pereira. In Mexico, Rappi is available in Mexico City, Guadalajara and Monterrey. The most recent expansion was Guadalajara and Monterrey and they are expected to expand into Brazil (Sao Paulo and Rio de Janeiro) and Argentina (Buenos Aires) by the end of 2017. Their ambitions target emerging and frontier markets with underdeveloped infrastructure, especially in Southeast Asia, the Middle East, and Africa.

LATAM provides a particularly interesting opportunity for ODE since, LATAM currently has a rapidly growing middle class in which it grew 11%, from 16% of the region's total population in 2001 to 27% in 2011, and the share of people who were poor dropped 10% in the same timeframe, from 17% to 7%⁶⁸. With the rapidly growing middle class is new demand for premium and luxury items, this causes grocery retailers to continuously strive to achieve relevance in product offerings and pricing.

⁶⁶ <https://techcrunch.com/2016/04/25/leaked-postmates-financials-suggest-company-might-be-doing-better-than-everyone-thought>

⁶⁷ <http://fortune.com/2016/03/23/startups-skepticism-over-uber-like-businesses>

⁶⁸ <http://www.pewresearch.org/fact-tank/2015/07/20/latin-americas-middle-class-grows-but-in-some-regions-more-than-others>