



CAN MEAL KITS BE SAVED?

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Meal kits promised to restore energy to the American dinner table and reinvent consumers' evening mealtime experience. They pledged to bring the convenience and taste of restaurant-style dishes to home-cooked meals, allowing the everyday consumer to capitalize on his or her Food Network daydreams in the comfort of his or her own kitchen. The first few years after the meal kit launch saw explosive growth; however, recent years have seen their profitability decline. Steady interest from consumers, combined with investment from grocery stores and CPG companies, could prove to be the category's saving grace.

Blue Apron Presents: Any Night



Starting a movement

[Blue Apron](#) pioneered the meal kit market by selling subscriptions for pre-portioned ingredients, paired with recipes for restaurant-style meals. The launch in 2012 instigated a meal kit delivery boom that delivered fresh ingredients to millions of Americans' doors. Blue Apron confirmed delivery of over [eight million meals per month](#).

After Blue Apron, the meal kit delivery space quickly filled up with other mail order players, like [HelloFresh](#), [Plated](#) and [Green Chef](#). These companies competed on the basis of fundamental elements, like service, ingredients and recipes. The market continued to expand over the next five years, and the number of options available hit triple digits. Companies aimed to remain competitive by designing meals around specific claims, and even the most generic versions offer the

capability to customize meals based on preference.

Consumers can select a kit based on their dietary needs and beliefs. Companies like [Purple Carrot](#) offer vegetarian and vegan meals, while [Terra's Kitchen](#) only sells meals that meet the standards of the Mediterranean diet. [One Potato](#) markets itself as family-centric, and [PeachDish](#) is for those craving flavors found south of the Mason-Dixon line. Sustainability-minded and eco-friendly consumers can order [Sun Basket](#) and remain assured that they're eating a responsibly sourced meal.

If you have a dietary specification, there's a meal kit for it.

Targeting consumers

Research demonstrates that Americans have an appetite for meal kits — some consumers more than most.

However, SmartBrief and the Hartman Group data reveals that meal kits stand on shaky ground: Less than half (45%) of all consumers express a desire to try these services, and only one-quarter (25%) of shoppers have acted on this interest and ordered a kit. These numbers further decrease among experienced

cooks — only one-fifth (19%) of adults who cook have used a meal kit or grocery delivery service, and roughly one-third (28%) state an interest in trying them.

Examining specific demographic groups gives meal kit companies some hope for their future. Young men with significant amounts of disposable income represent the hypothetical sweet spot for these companies. Men purchase kits at twice the rate of women, and almost half (44%) of male cooking enthusiasts see the quality of meal kits as equal to a home-cooked meal, with similar numbers (50%) considering them a good value for the price.

Meal kits merge the gap between iGeneration and Millennials. Over half (52%) of this group aims to try meal kits, compared to smaller numbers of older Millennials (37%), Generation X (38%) or Baby Boomers (24%).

The higher the household income, the higher the interest in meal kits: Those who make between \$75,000 and \$99,999 demonstrate the most significant interest (63%). The group least interested in meal kits consists of those who make over \$100,000 — individuals with developed taste and brand preferences.

The disparities between these demographic groups begins to uncover the difficulties meal kits have in-market, demonstrating that, despite high interest, retaining consumers presents a significant problem for these companies.

Stories from Real Customers -- Tre and Rich



Meal kit madness — misplaced mania?

The meal kit business model serves as a double-edged sword. Its tactics draw millions of interested consumers and initial revenue, while failing to retain them and wasting

significant dollars in marketing spend.

Signing up is simple and attractive, due to extensive new customer promotions; however, the overall expense, absence of choice and disincentive to continue purchase create systemic difficulties in retaining customers. Eighty-nine percent of HelloFresh customers stopped using the service after one year, according to analytics firm Second Measure.

Consumers perceive the kits as expensive, and over half (56%) disagree with the statement that meal kit services are affordable. This presents a significant barrier for a population that values money. Nielsen research discovered that over half (60%) of meal kit buyers see money as “extremely important” and that half (49%) find low-cost items important.

The rise and fall of Blue Apron exemplifies the trajectory of the market and the successes and failures of its competitors. Despite a previous valuation of \$2 billion and growth of 133 percent, Blue Apron lost \$54.8 million dollars in 2016 (a 16% greater loss than the previous year) and only booked \$795 million in net revenue. Blue Apron now loses money on more than two-thirds of its customers.

While food, packaging and shipping comprise the bulk of Blue Apron's expenses, marketing also weighs in heavily. The company poured \$144 million into marketing in 2016 and \$60.6 million in the first quarter of 2017 alone. It spends a ton of money on marketing and promotional discounts to acquire subscribers — an estimated \$84 per customer.

Online to in-store

Meal kit companies' problems with profitability have led them to move beyond their inaugural mail-order format and seek out partnerships with grocery stores and CPG companies. In-store sales show positive growth from within a declining category. Nielsen data demonstrates that in 2017, in-store meal kits generated \$154.6 million in sales, posting growth of more than 26 percent year over year.

Multiple retailers have now launched or purchased meal kit services. Several of the most recent and significant launches and acquisitions include:

- Amazon launched a meal kit service for select [AmazonFresh](#) customers in July 2017.
- Albertsons bought Plated in September 2017.

- Kroger launched its own service in September 2017.
- Publix launched in-house meal kits in November 2017
- Walmart started selling kits online in December 2017.
- Costco started selling Blue Apron meals in May 2018.

Partnership with CPG companies helps meal kits overcome key barriers to entry. Perceptions of freshness serve as the primary barrier facing meal kit adoption. Concerns about freshness (60%) and overall quality (52%) prevent consumers from transitioning to retailers' online grocery services. Only a quarter (25%) of consumers felt that online grocery services offered a good produce department, and even fewer (19%) believed that they had a good meat or seafood department. These perceptions identify a critical problem considering meal kits' key claim: fresh, quality meals.

Partnerships between the two grant CPG companies opportunities for additional distribution. [Chefd](#) will help with infrastructure and distribution of meal solutions through the Campbell's Kitchen site and hopes to leverage Smithfield's national distribution network and facilities to expand its ability to serve consumers with next-day delivery services.

Meal kit companies aren't the only ones set to gain from these new partnerships, with CPG companies, such as Nestlé, investing as much as \$77 million (June 2017 – Freshly) in various start-ups. CPG companies gain distribution in untapped markets and access to valuable consumer data — more critical than ever in the age of Amazon.

Campbell's Soup and Smithfield Foods investments in Chef'd highlight the potential of this aspect of the relationship. Campbell's plans to benefit from Chef'd's insights on e-commerce business models, access to data analytics and insights on shopper behaviors. Smithfield anticipates innovating and learning by using Chef'd's direct-to-consumer model by tapping into real-time consumer insights and sales data. Both intend to increase their e-commerce capabilities.

Meal kits also allow CPG companies to expand their products outside of their retail geography. This is especially important for new products, where companies may lack distribution but want to generate buzz with consumers. Unilever's \$9.2 million investment (May 2017) in meal kit start-up Sun Basket exemplifies this benefit. The company hopes that the kits will provide a direct pathway from its distribution centers to consumers'

homes though promotional products based on consumer data. Chef'd also hopes to leverage Smithfield's portfolio of brands for meal kit solutions across a variety of occasions.

This article was researched and written by quench. Find out more about us [here](#).



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