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Amazon's purchase of Whole Foods flipped the meal kit industry upside down; celebrity spokesmodels, football stars help sell vegan dinners



- Celebrities like New England Patriots quarterback Tom Brady and supermodel Chrissy Teigen are drawing new clients with branded kits and recipes.
- Amazon hasn't even begun offering meals to its more than 100 million Prime members and its reputation for disrupting entire industries already has the meal kit market changing up business models.
- Meal kit companies are partnering with supermarkets, drug store chains and introducing a variety of specialty diets to try to lure and retain customers.

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Vegetables from a Blue Apron meal-kit delivery are arranged for a photograph in Tiskilwa, Illinois.

It's been just over a year since [Amazon](#) bought Whole Foods Market, and it's already upended the market for fresh prepared meal delivery.

Amazon's reputation for disrupting entire industries has the meal kit market changing up business models in an effort to hold on to customers — before the Seattle retail giant sells its own fresh prepared dinners online. Amazon's mere presence in the market has already fundamentally altered it.

From established services like Blue Apron to vegan upstarts Purple Carrot, companies are adding celebrity spokesmodels, catering to specialized diets and promising customers everything from 30-minute meal prep to curbing heart disease. Meal kits, which were once billed as the solution to weekly or bi-weekly trips to a crowded grocery store, are also now selling in supermarkets and drug stores.

"The Amazon acquisition of Whole Foods really shook up a lot of players in the space from a thought process perspective," Edward Yruma, managing director of equity research at KeyBanc, told CNBC. "When that happened they all took a really hard view against what are they doing? Where could they find grow? What could they do better?"

So far, the tech giant has only tested its own branded meal kits in Seattle. It's instead selling customers dinners from Takeout Kit, which sells non-perishable prepackaged dinners, or Chef'd, which has drawn investment from Smithfield Foods.

The next frontier — retail

Grocery stores and meal kit companies, former rivals, are working together to try to head off Amazon.

In August, meal kit company Chef'd received \$25 million from Smithfield and [Campbell Soup](#) and began selling kits in Gelson's, a Southern California supermarket chain. Albertsons bought meal kit startup Plated in September 2017, a month after the Amazon-Whole Foods deal officially closed.

The pace of change picked up earlier this year with [Blue Apron](#), [Walmart](#) and [Weight Watchers](#) in March announcing plans to bring meal kits to super markets. Blue Apron ultimately partnered with Costco to test its kits at 15 locations while Walmart developed its own pre-portioned kits in-house. Weight Watchers has yet to launch its meals.

Also during that month, HelloFresh bought Green Chef to help diversify its meal catalog with organic, vegan and gluten-free options.

A few months later, [Kroger](#) bought meal kit Home Chef in a deal worth \$200 million. In June, HelloFresh said it would sell kits at Stop & Shop and [Ahold Delhaize's](#) Giant Food and Chef'd launched its kits at 30 [Walgreens](#) and Duane Reade stores in the New York area as part of a partnership with [Smithfield Foods](#).

"We will continue to see more grocery stores get into this game," Meagan Nelson, associate director of Nielsen's fresh growth and

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strategy team, told CNBC via email.

While the majority of meal kits are purchased online via a subscription service, in-store meal kit sales are on the rise. In the last year sales in this segment rose 26.5 percent to \$154.6 million, Nielsen reported.

"The market will evolve," Technomic's Erik Thoresen, told CNBC. "Subscription will still exist, but won't be the growth engine."



Chef'd

Chef'd meal kit

Having meal kits in supermarkets allows consumers the convenience of spontaneously deciding they want to make a home cooked meal without a lot of meal prep, rather than planning a week ahead. It also means they don't have to pay to have the food shipped.

"There have been some acquisitions in the space, but there has also been a boom in the industry over the last year and, even more so the last six months, as we've seen the shift into stores," Nelson said. "This shift will bring meal kits from its niche, high-income, early adopter phase into mass production and mainstream availability."

The market is growing fast and has room to run. About 9 percent of U.S. consumers, or 10.5 million households, have purchased a meal kit online or in-store in the last six months, according to Nielsen. Some 25 percent of consumers, or 30.1 million households, told Nielsen that they would be considering purchasing a meal kit online or in-store in the next six months.

"Meal kits are part of a broad array of technology-driven choices that consumers are just beginning to experiment with in the context of already piecemeal, fragmented food-shopping patterns," Melissa Abbott, vice president of culinary insights at The Hartman Group, told CNBC via email.

Celebrity endorsements

One drawback of the online subscription meal kit model is that customers are notorious for signing up for discounted offers and ditching the brand for another company or to return to their old

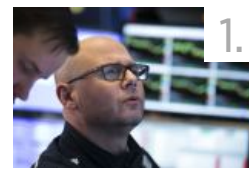
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grocery habits. As the field narrows, it's no longer enough to just provide fresh produce, convenience or customization.

Companies are offering recipes that can be made in under 30 minutes, only require one pot or are easy to prep and clean up.

Blue Apron teamed up in May with supermodel Chrissy Teigen, who runs her own food blog and has a special on the Cooking Channel, for six weeks-worth of recipes. Teigen is an outspoken celebrity with more than 10.6 million Twitter followers and 18.3 million Instagram followers. Her endorsement has already paid off, a person familiar with the matter at Blue Apron told CNBC.

Beginning this month, Blue Apron roll out a series of burger kits based on the cult-favorite animated FOX series "Bob's Burgers."

It's also followed in the footsteps of companies like Marley Spoon to offer larger group meals for special occasions.

Blue Apron was the first meal kit to suffer from Amazon's acquisition of Whole Foods. The meal kit company went public just as the tech giant scooped up the grocer in June of last year.

Amid growing concerns over the impact of Amazon's purchase of Whole Foods, Blue Apron lowered its expected IPO price to \$10, down from the \$15 to \$17 range it initially forecast.

Shares of the company hit a high of \$11 on the day of its IPO, but have stumbled nearly 70 percent since, trading at just over \$3 Friday.



Competitor Purple Carrot also brought on a celebrity name. The meal kit company added TB12 boxes in March of last year, a partnership with New England Patriots Quarterback Tom Brady. These boxes are high in protein and cater to customers looking for plant-based recipes.

Diversifying dietary offerings

Paleo, vegetarian, gluten-free and other specialty diet meal kits are on the rise.

While 82 percent of Purple Carrot's customers users are omnivorous, meaning they still eat meat, the food is 100 percent vegan.

"We are vegan food for non-vegans," CEO Andy Levitt told CNBC. While women are core users of the brand, the ratio evens out with sales of its TB12 boxes, Levitt said.

In May, Sun Basket announced a series of recipes endorsed by the American Diabetes Association that are high in fiber and low in sugar and sodium. It's Sun Basket's second foray into meals for people with chronic health problems. In October, the company launched its American Heart Association certified Lean & Clean menu, recipes that are under 500 calories, low in sodium and cut out ingredients like bacon, butter, confections, whipped toppings and oils.

Sun Basket customers who adhere to these diets have higher retention rates than those who don't and have twice the long-term value for the company, CEO Adam Zbar told CNBC.



Sarah Whitten
Reporter

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