



Q1 exclusive whitepaper

Meal Kits: The Rise of the Hybrid Segment

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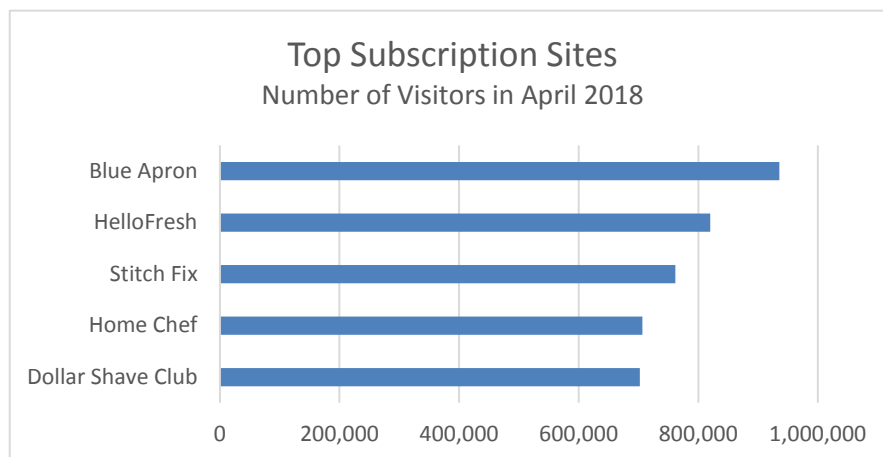
Meal kits have quickly grown in consumer awareness and usage, with the arrival of Blue Apron in 2012 marking the first U.S. meal kit company. For roughly \$60 per week, consumers receive three two-serving meals of their choice with easy step-by-step recipes at their doorstep.

In just five years, the market has blossomed into a full-on industry that is threatening grocery stores and restaurants. According to Packaged Facts, there are now more than one hundred meal kit delivery services available, and they take different forms to appeal to each type of consumer. These kits range from fully prepared, ready to heat meals to ingredients and recipes for specialized diets (e.g., paleo, Whole 30, certified organic, vegan, etc.).

While meal kits were a \$1 billion industry in 2015, revenues are expected to grow to \$10 billion by 2020, according to Statista, with growth upward of 150% year over year.

Meal Kits are Among Top Online Subscription Retailers

Online subscription services have been on the rise in recent years, including clothing, beauty/grooming and food companies. According to Hitwise data, meal kit companies accounted for three of the top five most visited subscription sites in early 2018. Blue Apron, HelloFresh and Home Chef have seen increased traffic from their customers.



Meal Kits are Foodservice and Retail Hybrid

Meal kits provide convenient dinner solutions to customers, much like traditional restaurants and foodservice offerings. They also provide fresh ingredients and the opportunity to learn new cooking techniques or spend more time together as a family, like traditional grocery shopping.

This hybrid is what draws many consumers to become meal kit users. The hassle of meal planning and grocery shopping is minimized to a quick click online and the food arrives a few days later. Families still get time together in the kitchen and around the dinner table, often with a healthier meal than if they ate at a restaurant or picked up fast food. In fact, more than 80% of American meals are prepared at home, according to a recent NPD study.

Meal kit companies are an interesting new area of the food industry, sourcing both foodservice and traditional retail products. The concept of perfectly-portioned ingredients may mean pallets of produce or cases of gallon bottles of vinegar that are weighed or measured out into specific amounts, or purchasing single-serve, pre-portioned salad dressing packets.

The idea is to provide consumers with the exact amount they will need, with little to no food waste. This means that sourcing practices are extremely complex and may vary based on the ingredient or recipe. Understanding the use of these products in the meal kit space is critical to a successful manufacturer or distributor partnership.

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Acquisitions and Partnerships: Meal Kits Poised for Accelerated Growth

As with many emerging segments, acquisitions have helped to consolidate the booming meal kit space. Major players have purchased niche companies to diversify their offerings without having to learn the specialization or achieve necessary certifications. For example, earlier this year, HelloFresh purchased USDA-certified organic meal kit company Green Chef.

Understanding the threat to market share, and further blurring the lines, retailers have also made major acquisitions in the meal kit space. Albertsons purchased Plated for \$200 million in 2017, and began offering kits in stores this year. Kroger’s failing attempt at their own meal kit line drove them to merge with Home Chef for \$200 million in June. Home Chef meal kits have just arrived on Mariano’s shelves this month, with the plan to expand to other Kroger banners this year.

Blue Apron and HelloFresh are not missing out on in-store sales either. Blue Apron meals became available at many Costco stores earlier this year, and HelloFresh started stocking their kits at Giant Foods, Stop & Shop and Walgreens stores.

Retailer acquisitions and partnerships make meal kits available to consumers who haven’t opted for the online subscription model, or those that need a convenient and easy dinner solution right now. These partnerships are introducing a new customer base to the industry, while providing leverage and support for even more accelerated growth opportunities.

*For further information on meal kits or to sponsor the multi-client study *Understanding the Meal Kit Landscape*, please contact jheseman@q1consultingllc.com.*