

Meal Delivery Kits Pose Threat to Traditional Food Providers

Written by Meghan Guattery | Edited by Vicky Wolak | Designed by Rebecca Simon

Rising income and declining free time have driven competition for consumer food spending.

Consumers have been able to be more selective with their food spending

With leisure time on the decline and per capita disposable income rising, consumers are increasingly looking for ways to save time in as many aspects of their lives as possible. People have turned to online retailers for hassle-free subscription services for everything from clothing to dog treats. One of the fastest-growing and most competitive subjects of this trend is food. Meal kit delivery services present the newest threat to supermarkets and grocery stores, and even online grocery retailers, by providing a quick and easy solution to routinely time-consuming grocery shopping.

Crunched for time

Traditionally, consumers have had to take time to visit grocery stores and supermarkets, walking down aisle after aisle, to do their food shopping. According to the Time Use Institute, the average shopper spends 43 minutes shopping each time they visit a grocery store. Over the five years to 2018, the national unemployment rate is expected to fall from 7.4% to 4.0%. As a result, individuals who have returned to work during the period have become increasingly crunched for time. Armed with higher income levels, consumers have been on the hunt for time-saving

alternatives to shopping for and preparing their own meals.

Meal kit delivery services have been able to hone in on this growing demand and have made their way into consumers' kitchens by making meal time easier. Operators such as Hello Fresh and Blue Apron enable consumers to sign up for weekly delivery subscription services, in which they receive prepackaged meals and accompanying recipes that can be prepared in 30 minutes or less.

These operators have experienced great success during the period. Germany-based operator Hello Fresh reported a customer base of nearly 1.5 million subscribers in December 2017 (latest data available). The company also recently made its initial public offering in November 2017, after its rival, Blue Apron, went public in June.

Rising income levels

Per capita disposable income is expected to increase at an annualized rate of 1.9% over the five years to 2018. As a result, consumers have been able to be more selective with their food spending. Prepackaged meal kits are often a costlier option compared with shopping for individual grocery items at a supermarket or grocery store. While rising per capita disposable income has enabled more

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consumers to purchase meal delivery services, it has also made it easier for consumers to forego cooking altogether, opting instead to dine at restaurants and other eateries. Overall, spending on prepared food away from home, such as at restaurants, has increased during the five-year period, according to the Bureau of Labor Statistics.

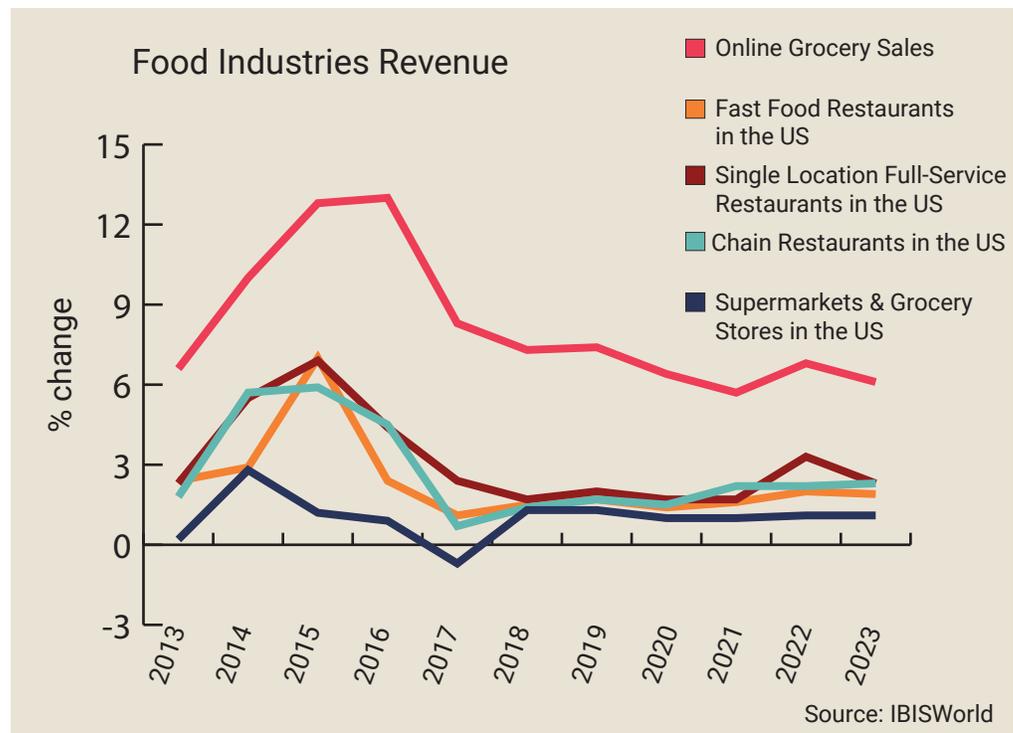
Nevertheless, supermarkets and grocery stores remain a staple in United States and the largest food providers. Moreover, some consumers remain skeptical of the freshness of prepacked meal delivery products, specifically the produce typically included in the kits, and prefer to choose these items in person at their local food retailer. In 2018, the Supermarkets and Grocery Stores industry is anticipated to generate \$615.6 billion, while chain, single-location and fast food restaurants are expected to generate a combined \$556.6 billion the same year.

Target markets

Meal delivery services have also found success among young professionals, a market not typically targeted by traditional supermarkets and other food retailers. For example, Blue Apron's largest market comprises individuals between the ages of 25 and 34, who make up an estimated 25.0% of all consumers. These consumers typically do not have income levels as high as those of older individuals, such as those aged between 35 and 44 years old, who make up about 23.0% of the company's market. As a result, rather than making the jump from cost-efficient supermarket shopping to spending at restaurants, millennials have instead opted for meal delivery services to save time and money compared with eating out.

Direct threat

There are benefits and drawbacks to each of the various ways consumers can obtain their food products. While visiting



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supermarkets is a cost-effective way for individuals to fill everything from their refrigerators to their pantries, trips to these retailers take a substantial amount of time that consumers are no longer willing to spend. Restaurants might provide a wide range of options and enable consumers to avoid cooking, but they are often much more expensive than in-home cooking and also require time spent on traveling to the establishment,

sometimes having to wait for a table and finally for the meal to be prepared. Meal kit delivery services provide a happy medium between spending hours searching supermarket shelves and dishing out excess cash for restaurant services. For traditional grocery providers, this likely means that more investment into efficient and guided mobile ordering and delivery will be necessary to tap into younger consumers' spending.

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