The economics of meal kits - Video transcript

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00:00 (upbeat music)

00:01 - [Narrator] **Meal kit companies** set out to disrupt **grocery stores** and change the way we cook at home.

00:06 - [Narrator] Now, there's 382 of them in the US, a 300% increase from a decade ago, when they were just 13.

00:13 - [Narrator] Despite industry-wide growth, the **meal kit model** faces an obstacle, you.

00:18 - [Narrator] Of all the people who tried one of five major **meal delivery services** in 2022, about 90% canceled their **subscription** by the end of the year.

00:26 - Human behavior is very fickle, especially when it comes to food and beverage.

00:30 - [Narrator] And now, Blue Apron, one of the earliest players is selling.

00:34 - [Narrator] This is The **Economics of Meal Kits**.

00:39 - [Narrator] This graph shows the share of sales in the US between the major **meal kit companies** in 2022. Sunbasket and Marley Spoon Inc., have 2 and 3%, Blue Apron and Home Chef took 6 and 12% while HelloFresh and its subsidiaries ate up 78%.

00:56 - [Narrator] But no matter their size, many of these companies use the same key ingredients to find and keep customers, **price point**, **convenience**, and **variety**.

01:05 - [Narrator] First, get the customer. **Meal kit companies** focus a lot on the **price per meal**.

01:10 - [Presenter 1] Here's how I make fancy meals for under $5. - [Presenter 2] Wow! - [Presenter 3] Get 1.49 per meal.

01:15 - Our biggest competitor are the **offline grocers**.

01:18 - [Narrator] Which is why HelloFresh and Home Chef say, "It's cheaper to buy **meal kits** than to buy **groceries**."

01:23 - Wherever you source the ingredients to do home cooking from scratch yourself, that's our competition in some way.

01:30 - [Narrator] But what makes that possible?

01:32 - It's all about **economies of scale**.

01:33 - [Narrator] Brian Choi has done **market research** on the **food and beverage industry** for 15 years, and he says that, "When it comes to keeping prices low for the consumer, **grocery stores** have an advantage over most **meal kit companies** because of the volume of product they handle daily. But similarly, the **meal kit companies** that are best positioned to offer the lowest **price point** for consumers, are the biggest ones, like HelloFresh."

01:56 - **Economies of scale** allow us to get better pricing, to get a better margin on the product, and then to reinvest parts of that margin, either into a better **customer experience** or into lower pricing.

02:08 - [Narrator] Which means that at times, the company can compete on price with **grocers**, but on a **per-meal basis**, buying the ingredients yourself from a **grocery store** still tends to be cheaper, especially considering that you can always buy fewer ingredients or go for cheaper options. Whereas the minimum you could spend on HelloFresh and Blue Apron in a week is $60.95, $12.49 **per meal**, at least before **discounts**.

02:34 - It's sometimes hard to get people over the purchase barrier. That's why incentives are a key part of our marketing or growth playbook. For every dollar that we spend on getting that group of customers, it takes about six months to actually earn that dollar that we invested back.

02:51 - [Narrator] Which makes the next step all the more important, keeping the customer.

02:56 - [Narrator] These are the **customer retention rates** for the same five **meal kit companies** in 2022. In less than a year, they all lost the vast majority of the new customers that bought their first **meal kits** in January.

03:08 - [Narrator] One possible reason everyone drops off, the **discounts**.

03:11 - They're doing their own mental calculus. They're like, "Wow, $12 meal is very different from the $4, you know, based on the promotional rate."

03:19 - [Narrator] When you introduce a product to someone at a severe **discount**, you may get more people to try it, but when the **discount** goes away and they have to pay full price, it may not be worth that new price to them.

03:31 - One thing about the American consumer is they don't like dramatic change in prices.

03:34 - [Narrator] So how do companies get **retention rates** up? One way is to offer the **discounts** again, and hope that they entice customers to return. And another is to add more **convenience** and **variety**.

03:49 - The biggest **value proposition** is the **convenience**.

03:51 - [Narrator] The big thing **meal kits** offer to consumers is a convenient way to cook at home. They ship to your door and give you pre-portioned ingredients for relatively simple recipes.

04:00 - But when you stack that versus the other options that are there for consumers, the collective **value proposition** has diminished significantly.

04:07 - [Narrator] With restaurants and **grocery stores** offering delivery to your door, it's hard for **meal kits** to offer a unique **convenience** to customers, and getting pre-portioned ingredients maybe more convenient if you want to cook for yourself. But Americans only cook an average of 4.5 meals at home per week. But companies across the **meal kit industry** are expanding their offerings, and one of the common ones isn't a **meal kit** at all, it's just **pre-made meals**.

04:30 - [Announcer 1] Factor has chefs cook meals for you and then they deliver them fresh to your house. - [Announcer 2] They have oven-ready meals with everything included and fast and fresh meals that can be done in 15 minutes.

04:39 - As you grow your customer base and you grow your assortment, you also tend to give customers a lot more choice.

04:45 - [Narrator] And more choice means you're more likely to get customers to spend more with your company, but it's yet to be seen how much these new offerings will increase **retention rates** across **meal kit companies**, plus **retention rates** aren't everything.

04:57 - [Narrator] Looking back at this chart, Blue Apron sits slightly above the rest, which Choi says, "May be because it offers slightly more options and **customization**." But Blue Aprons' **revenue** has declined greatly since 2017, then, there's **profit**.

05:13 - Both HelloFresh and Blue Apron got off the ground by raising hundreds of millions of dollars in **funding**. In 2017, they both went **public**, then their paths split.

05:22 - Blue Apron's **revenue** has slowly declined with just a slight increase during the industry's pandemic boom. HelloFresh on the other hand, has been consistently **profitable** since 2017. Looking at its **revenue**, you see constant growth, even after the pandemic shutdowns ended and people could eat at restaurants again.

05:38 - Once you establish yourself as the leader in that space, it becomes very, very hard to be disrupted because you need to solve a lot of complex problems over and over again to get to that position.

05:53 - [Narrator] While both faced stark drops in their share prices, the New York Stock Exchange threatened to delist Blue Apron after its stock dipped below a dollar, the company shifted to an **asset-light model**, scaling down, and offloading many of its operations to another company. Then it announced its selling to Wonder Group, a food delivery startup, and return to being a **private company**.

06:12 - [Narrator] Another key step is to **differentiate**.

06:14 - [Narrator] The **barriers to enter** the **meal kit industry** are fairly low, which is partly why there are so many **meal kit companies** today.

06:21 - But the **barriers to scale** and build a big **business** are actually really high.

06:26 - [Narrator] And why it's important for each one to stand out if it wants to survive. Take Methodology, a small **meal delivery company** that started in 2015, it doesn't offer **meal kits** at all, instead, Methodology sends out four or five days' worth of **pre-made meals** with ingredients you're less likely to find in other kits, like nopales, cacti, and purslane.

06:45 - Our audience is basically who I was when I started the **business**. They're really time-starved, so they don't have time to cook healthy meals on weeknights, and as far as their incomes, most are making in the several hundred thousands, if not more than that.

06:59 - [Narrator] Most other companies compete at a **price point** around $8 to $15 per serving without **discounts**. But Methodology costs around 17 to $30 **per meal**.

07:09 - Our sweet spot actually is men who live on takeout 'cause they're already doing it three to four times a week minimum, they're spending 35 on average **per meal**.

07:19 - [Narrator] And it doesn't offer **discounts** at nearly the same rate as the other companies. The average **discount** for a Methodology Kit is 10% off a customer's first week. Nguyen says, "This **model** has allowed the company to be **profitable** from year two."

07:30 - We have customers who have spent over a hundred thousand dollars with us because we really are a lifestyle for our **target customer**.

07:38 - We're operating in one of the largest consumer categories out there, which is **food at home**. So in my view, a large category will always attract sort of like new **business models**, new entrants in the category, and so on.

07:51 - [Narrator] Grand View Research forecasts that the **revenue** across the US **meal kit industry** will reach $64.27 billion by 2030.

08:00 - Do I believe the numbers?

08:01 - I think they're probably a little bit too optimistic.

08:06 - I don't know what the **food industry** will look like in five or 10 years, but I do think that we can play a really big role in shaping the future of the **food industry**.

08:14 - I think in 10 years, we'll probably see one or two major players in the industry still operating in that space. I'll also expect to see some companies that have gone bankrupt or acquired by some of the larger players.

08:30 (rhythmic music)