

# MORE CONSUMERS ARE RELYING ON MEAL KITS AMID COVID-19 PANDEMIC

But a sudden increase of new customers is straining the supply chain

March 30, 2020 • eMarketer • Rimma Kats

Meal kits are experiencing an uptick in popularity as more people practice social distancing and limit their grocery store shopping.

“Grocery stores are overrun in many places—especially vulnerable populations—and people are turning to meal delivery services during this pandemic,” said Guy Marion, co-founder and CEO of Brightback, a company that provides subscription retention and churn management software. “One of our customers is a popular meal delivery service based in New York, and over the past few weeks, demand has ‘reached capacity.’”

Companies like Blue Apron, HelloFresh and Home Chef are already seeing a flood of new customers. Many first-timers are turning to these services for their convenience and price.

“But a financial incentive can only go so far,” said Jason Goldberg, chief commerce strategy officer at Publicis. “Especially when meal kits have struggled to retain customers and demonstrate high lifetime value, spending a lot to acquire new customers doesn’t make the most sense. Meal-kit providers need to focus on fixing and improving their lifetime value before returning their focus to new customer acquisition.”

“One of the most attractive things meal-kit services could be doing right now is offering flexibility, like expanded delivery options, free access to other offerings from the company or credits that a customer can use in the future,” Brightback’s Marion said. “Some living situations are temporary, so making it clear to customers that they have the option to skip deliveries easily or pause their subscription online could attract

more customers to a service. ... Subscription companies are built on relationships, so providing excellent service and being known for doing right by customers is a major differentiator.”

Marion also believes that meal-kit companies must be able to adapt quickly, while paying close attention to new and existing customers. “Loyal subscribers and new ones want to easily change the location, time and size of their next delivery or pause it all together,” he said. “For an in-demand service like meal kits, this is going to be an important exercise in practicing adaptability and empathy for users.”

Personalization is also key. According to Nicole Amsler, vice president of marketing at AI-powered marketing platform Formation.ai, today’s customer expects personalization



everywhere they interact with a brand. “To keep customers engaged, brands need to focus on increasing the relevance of their offers and communications,” she said. “To do this, these companies need to have access to real-time customer insights and leverage technology like artificial intelligence (AI) and machine learning to speed and scale up the process of understanding what customers want and developing and fine-tuning promotions that address these motivations.”

It’s also important to have marketing initiatives align with the entire supply chain to avoid operational hiccups. For example, meal kits are expected to have the quality ingredients that customers would buy at the grocery store. “Not only must the meal kit be completed and packaged as advertised, food safety compliance must also be maintained at every point in the supply chain so that consumers stay healthy and remain satisfied and happy,” said Joe Scioscia, vice president of sales at enterprise management software company VAI.

Avoiding hiccups is easier said than done, and it’s already proving to be difficult. Blue Apron, which just months ago was struggling to stay afloat, is seeing a surge in

new customers in recent weeks. And the company is having trouble meeting the sudden demand.

“Within the span of 48 hours, we saw an increase in orders that surpassed the staff we had in place to fulfill this higher-than-expected demand, and this caused some challenges in our fulfillment process,” wrote Linda Findley Kozlowski, president and CEO of Blue Apron, in a Facebook post. “Even with streamlining our operations, we had to delay a subset of orders and informed some customers that we would not be able to send them a box until the week of March 30. We had to make some changes faster than we were able to communicate them to you and understand the frustration this may have caused.”

Many HelloFresh customers also didn’t receive their scheduled meals last week and instead, got emails informing them of delays “due to some unforeseen disruptions” in its supply chain.

As demand for meal kits continues to increase and companies expand their offerings and ingredient options, the supply chain will become more competitive. VAI’s Scioscia said he expects to see new distributors and suppliers enter the industry to assist grocery

stores and direct-to-consumer (D2C) brands with meal-kit production and delivery, which would introduce new competition.

“For an industry that values fast and fresh delivery, having technology at the core of the business is so crucial to meet high customer demand,” he said. “As the industry becomes more established, brands must keep up with supply and demand and align stakeholders across the supply chain with business goals to ultimately see success with customers. “

According to Brightback’s Marion, expect to see a continued surge of new sign-ups for meal kits, box subscriptions and other delivery services possibly through the end of the year. “At some point, current restrictions will loosen, and these companies will see rapid customer churn,” he said. “The winners will be those that successfully retain the new customers they’ve gained this year. There’s a lot to learn from an influx of new customers, and the companies that commit to finding these answers and making changes will survive that future transition.”

Publicis’ Goldberg is less hopeful. “Meal kits feel more like a product than a profitable stand-alone



business to me. As the whole pivots to digital grocery [with curbside pickup or delivery]

post-pandemic, it makes sense for consumers to ad-hoc add selected meal kits to their grocery orders,

but I'm not sure there is a lucrative stand-alone business here."

