

Click. Order. Dinner's Served.

Quest for convenience drives skyrocketing growth of home meal kit and online grocery delivery services.

by Kindra Gordon, field editor

A transformation is occurring in kitchens across the country and around the world.

More and more consumers are buying groceries — both traditional packaged goods and complete meal kits — online.

Consumers are especially directing their dollars toward home meal-kit delivery services such as those offered by Blue Apron, Sun Basket, Hello Fresh and Purple Carrot. Via these services, consumers choose the meals they want online, and within a week a box with all of the ingredients and preparation instructions are delivered directly to their doorstep, anywhere in the country.

Don Close, RaboResearch food & agribusiness senior protein analyst, has studied this evolving phenomenon and reports his research found 170 companies currently selling meal kits online. Given consumers' quest for time savings both at the grocery store and at home, Close anticipates more changes ahead.

"It's foolish to think we won't see a revolution in the way we buy groceries," he says.

The online grocery and home meal-kit delivery models have found favor with busy urban consumers and rural consumers alike. Online ordering allows urbanites to avoid traffic and minimize time spent grocery shopping. Likewise, consumers in remote areas relish the array of fresh food ingredients and



ethnic variety they now have access to in a matter of days.

He adds, "Success of food sales in the future is going to be marked by convenience, convenience, convenience." To this, Close suggests food industries should consider adapting quickly.

Online observations

Close explains that purchasing food online "is just in its infancy." Since consumers already have experience buying books, movies, clothing and other goods online, the expectation for online grocery and meal-kit shopping is for much more rapid growth. "Consumers know how to do this, so there is less of a learning curve," he states.

As further proof that more online sales are coming — for food and all goods — Close shares some sobering statistics. He cites research that showed 3,500 brick-and-mortar stores closed in 2017. Projections suggest a staggering 11,000 stores and nearly 300 shopping malls will close across the country in 2018.

"These numbers indicate how rapid this transition [to online] is taking place," he says.

Additionally, Close shares that in the last five years, online sales growth was 135% on Amazon; and 335% for Alibaba, a Chinese multinational e-commerce business. In comparison, Walmart's in-store growth was just less than 5%.

As a result of the growth of online shopping and ability

to stream entertainment at home, Close says tomorrow's consumers are expected to spend more time at home. This means that meals at home are expected to become more popular than dining away from home, he reports.

Currently, online grocery purchases in the United States represent about 4% of sales. By 2025, that is estimated to reach 20%, says Close. It's a statistic that will also likely mean the number of conventional grocery stores will decline.

Benefits from online

Close says online sales do offer some potential advantages for industries like beef. As one example, he notes that consumers want food with a story. "Online lets industries and food companies tell a story much better than in-store selling," Close believes.

Additionally, online grocers can offer more variety; whereas, conventional supermarkets are limited by square footage and often only offer about one-fourth of the selection of the more than 3 million food products available. Close gives the example in

the meatcase that most traditional grocers may offer three different fresh beef items: Choice product, a branded product and Select product. Meanwhile, an online grocer could offer branded beef, conventional beef, ultra-high-quality beef, breed-specific beef, natural beef, organic beef, grass-fed beef, etc. — all with the click of a mouse.

Close acknowledges that this would require additional cooler space and boxed-beef storage by the online grocer, but if the online sales support it, the products will likely remain available.

Close predicts that the online grocery model could also spell more opportunities for small, independent producers or a pool of producers to get started marketing to consumers. He even anticipates the marketing alliances from 20 years ago could re-emerge as online groceries and food companies seek certain

specifications in the products they offer. If that does happen, Close believes the price spread between high-demand cattle fitting specific requirements and commodity cattle would widen greatly.

Bottom line for beef

So what's the impact of online sales to the beef industry? Close says, "Initially, I thought if meal kits are successful, they could be detrimental to beef." However, now, he's come to think otherwise.

"I think meal kits provide an opportunity to introduce beef meals to non-beef eaters," Close explains. "If they try a meal with beef, they might go and buy more beef."

Similarly, Close believes meal kits have the potential to increase consumption of beef among consumers who are only occasional beef eaters. Additionally, Close says meal kits might help consumers

expand their beef choices.

"We know a typical home cook will only buy two to six beef items — they only buy what they know," he says. "Meal kits can offer a new variety of different cuts and instruction sheets." In essence, it's an opportunity to teach cooks new recipes using beef and new beef cuts.

There's also an upside for beef producers.

"By taking advantage of the underutilized and new cuts of beef, we could see a direct pass-through to cutout values," he explains.

Close concludes, "The beef industry has a ton of momentum right now. It's an exciting time with renewed protein acceptance. The beef industry can take a hold and be a leader [in online] or sit back and wait for it to happen." **AJ**

Editor's Note: Kindra Gordon is a cattlewoman and freelance writer from Whitewood, S.D.

Anticipate changes ahead

While 170 companies are currently selling meal kits online, RaboResearch Senior Protein Analyst Don Close says, "To the best of my knowledge, none are making money."

Close anticipates the meal-kit model will be successful, but he says consolidation is going to need to occur before the companies become profitable. He also notes some brick-and-mortar stores are starting to work with online grocers and meal-kit companies; some stores are also working to develop their own online offerings.

Close says two major challenges are facing the meal-kit-delivery industry. One is the added cost for the last mile to delivery. Close says it is wildly expensive to deliver directly to the door. He suggests centralized pickup points where consumers frequent near their homes may make delivery models more profitable.

A second hurdle currently facing the at home meal-kit-delivery companies is the level of discounting that is occurring to attract customers. "Consumers are leap frogging from one company to another because of the discounts, and the companies are cannibalizing each other," says Close.

Additional observations

In studying the meal-kit emergence, Close shares these other observations:

- There's a misconception that the Amazon/Whole Foods transaction a year ago started the meal-kit revolution. That couldn't be further from the truth, Close says. Instead, PeaPod started home delivery of groceries in 1989 in Chicago.
- Interestingly, while millennials are the largest demographic of our population, the distribution of online shoppers is spread across the population. Especially for middle- and upper-income consumers, meal kits are popular. Close explains that they see the meal kit as cheaper than eating out three to five times per week.
- While "club cards" have been used in grocery as a means to offer coupons and sales — and also to track what consumers purchase and how often, online will be a new frontier in gathering consumer purchasing data. As a result, Close says, "Online grocers will be able to 'push' product because they know what and when you buy. That's going to be a game changer."
- Will meal kits reduce food waste? Probably yes, says Close, but he notes they are instead increasing packaging waste.
- Lastly, he poses that as more independent companies start delivery to consumers, there is an increased food-safety risk that needs to be considered.