Blue Apron Case Study

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- Strategic Profile and Case Analysis Purpose
    - The purpose for this Case Analysis is to examine Blue Apron and their competitive landscape; using the findings to formulate a business strategy for Blue Apron considering the current state of the food delivery industry.
- Situation Analysis
    - General Environmental Analysis
        - For Blue Apron, the situation is not desirable. There is a high volume of competition, with many competitors far outperforming Blue Apron, and it does not help that the firm is not in a good financial position.
    - Industry Analysis
        - The meal and food delivery industry is one that is rapidly growing, as can be seen in the active subscriber counts of services like HelloFresh, which went from 2.9 million subscribers to 6.9 million in the span of two years. The value of the industry also serves as a good benchmark of where it stands, with the industry's worth increasing from $7 billion to $10 billion between 2021 and 2024.
    - Competitor Analysis
        - Although many of Blue Apron's competitors such as HelloFresh or EveryPlate are selling their meal kits at higher prices, they are able to use that extra money to make better marketing decisions and create more value for their customers. Competitors like Amazon, Instacart, or local restaurants are also able to provide quality products and meals to customers in far less time it takes for a Blue Apron meal kit to ship.
    - Internal Analysis
        - Financially, Blue Apron was faltering, as can be seen from their historical financial records. Every year from 2015 to 2021, Blue Apron consistently had losses in net income and earnings before interest, taxes, depreciation, and amortization (EBITDA). Blue Apron's highest loss in EBITDA comes from when the company was at its peak in 2017, equating to roughly $161 million, and considering the prior year's loss of only $46 million, their losses multiplied by approximately 3.48 times. An interesting statistic, however, is the company's loss in EBITDA in 2021 of $48 million, considering the loss for the year before was only $14 million, meaning their losses increased by nearly 3.48 times, almost the same factor the company's losses grew at when the company hit their peak in 2017. The similar factor of growth in the Blue Apron's EBITDA losses shows that

the company did experience a similar scale of growth between 2020 and 2021 as they did between 2016 and 2017.

- Identification of Environmental Opportunities and Threats and Firm Strengths and Weaknesses (SWOT Analysis)
  - Strengths
    - Being one of the companies to pioneer the food and meal delivery service, it would be fair to say that Blue Apron had first mover advantage, which is evident seeing their active subscriber count spike in 2017.
  - Weaknesses
    - Blue Apron's process for packing meals for subscribers is very precise and meticulous, which while it does lead to a very consistent product, the costs far outweigh the value of such precision. Blue Apron also chose not to pass costs onto the consumer by charging for shipping in order to make the service inexpensive, but the practice did more harm than good and created a larger financial deficit for the company.
  - Opportunities
    - The utilization of a data-driven approach similar to competitors like Hello Fresh would allow for Blue Apron to better handle and manage their financials while still ensuring a high standard of quality in their products and services.
  - Threats
    - Low barriers for entry meant that by 2022, the meal and food delivery market became oversaturated with competition from businesses such as Hello Fresh, Walmart and Amazon, and local restaurants.
- Strategy Formulation
  - Strategic Alternatives
    - Partnering with grocery stores to ensure good quality ingredients at more easily accessible locations
    - Set up a system similar to Instacart or other food delivery services in having local people delivering ingredients to customers from centralized locations instead of shipping out product from the company itself.
  - Alternative Evaluation
    - Partnering with Grocery stores
      - Many delivery services like Instacart and DoorDash are able to make more money through commission fees from the grocery stores and restaurants they work with. In addition to commissions, Blue Apron's partnership with grocery stores would allow them to utilize the stores' ingredients, which allows the firm to greatly lower their resources costs, which currently consumes roughly 60-75% of their net revenue, according to the historical financial

records. Utilizing ingredients from grocery stores for their service would also allow Blue Apron to ensure that customers are still receiving a quality product, since most major grocery stores like Kroger source their stock from local farms similarly to how Blue Apron sources their ingredients.

        - Local delivery
            - Local delivery could allow Blue Apron to lessen delivery costs while also shortening delivery times. Outsourcing delivery to local drivers would allow Blue Apron to not only save money on delivery services but also earn more from delivery and commissioning fees. While the addition of more fees would make the service more expensive, it has been shown with competitors like Instacart and HelloFresh that customers are willing to pay extra on delivery fees for fast and high-quality service. Having local drivers deliver for Blue Apron allows for the company to greatly reduce delivery times. Under the firm's current delivery model, meal kits are delivered in large groups with other customers' orders. Having local drivers receive and deliver individual kits from a centralized facility could allow for customers to receive their order within an hour as opposed to within 24 hours under Blue Apron's current delivery model. This decision would also add the benefit of local accessibility for customers.
    - Alternative Choice
        - While both options are good, partnering with grocery stores is more likely to lead to greater profitability for Blue Apron. Not only would the partnership create a new revenue stream for the firm through commissioning fees for delivery, but the decision would also greatly decrease the cost of goods sold for Blue Apron, which is the leading factor for the company's current losses.
- Strategic Alternative Implementation
    - Action Items
        - Negotiations need to take place to decide the grocery stores Blue Apron will have as partners. Negotiations need to include commissioning fees as well as how Blue Apron's delivery service would integrate with the stores' current structures.
        - Restructuring would need to take place for Blue Apron as they would shift their supply source from local farms to grocery stores. There would also need to be new management positions to ensure and protect relations with partnered grocery stores.

        - Recipes will likely need minor alterations to compensate for the grocery store's available items.
    - Action Plans
        - The first step would be to prepare Blue Apron for the upcoming shift, with preparations including managerial restructuring, formulating a plan for separating from the farms the firm is currently working with, and making sure current recipes are fit for the variety of ingredients a grocery store can provide. From that point, Blue Apron will need to begin negotiations with various grocery retail companies to set up partnership and integration. After negotiations are settled, Blue Apron will need to work with grocery partners to create marketing materials and set up a delivery system that can efficiently utilize both firms' available resources.
- Post-Summary Questions
    - How did the COVID-19 pandemic impact the meal delivery industry and Blue Apron's ability to compete?
        - I feel the best way to describe the COVID-19 pandemic in terms of the meal and grocery delivery industry is that the pandemic was an "open season" for these companies. Nearly everybody was at home all day every day, and many people started to heavily utilize home delivery services because it was convenient. During the COVID-19 pandemic, many meal and grocery delivery companies were able to rapidly grow their business because of this massive increase in demand, which hurt Blue Apron more than it helped. Blue Apron hit their peak between 2016 and 2017, but by the time the COVID-19 pandemic began, the company was already beginning to struggle against its competitors like Hello Fresh. While Blue Apron did get a small spike in popularity during the pandemic, other companies were able to utilize the opportunity to a much larger scale, as seen in the Subscriber chart shown in the text. Hello Fresh was able to grow their subscriber count from 5.29 million to 6.94 million between 2020 and 2021, which equates to almost 2 billion more subscribers in the span of a year. In the same amount of time, Blue Apron's Subscriber count decreased from 353 thousand to 336 thousand. The COVID-19 pandemic offered a spike in demand for food delivery services, however, Blue Apron failed to preform against or even equally to their competitors. Meanwhile, already successful companies as well as newcomers, specifically mega-corporations, garnered gains both in customer base and financial revenue.
    - Explain key factors Lydia Thomas identified in the competitive landscape in which Blue Apron operates and how Blue Apron could become more competitive.
        - Some of the key factors Lydia Thomas identified included prices, delivery time, and scale. While many of Blue Apron's competitors had higher

prices for their food or meals, they were able to get them to the customer far quicker. For Blue Apron, a meal kit would arrive at your home within 24 hours, but if you shopped through Instacart, you could find a recipe you liked, order the necessary ingredients, and have them all delivered to you within the hour. Another factor that affects Blue Apron is scale. Services like Instacart are able to take advantage of grocery stores' massive scale of buying and selling. As seen in the text, even though grocery stores typically have small margins on food from similar suppliers as Blue apron, the stores are able to make a higher margin through private store brands, which also allows Instacart to receive a higher commission from them, since the commission is based on percentage instead of a flat rate. Thomas does not directly state within the text her insights into how Blue Apron could adapt in the current environment. However, with her analysis of the competitive environment, it can be inferred that Thomas believes that Blue Apron can learn from and implement their competitors' methods.

- Was the 2015 entry into the vineyard and wine business a mistake? Why or why not?
  - Expanding into the vineyard and wine business was not a mistake for Blue Apron, but it also did not help them. Many of Blue Apron's competitors also sold and delivered wine and alcohol with their meals or ingredients. Similar to Lydia from the text, many people like to pair their meals with wine. Unfortunately for Blue Apron, the positives of diversifying into the vineyard and wine business were neutralized by the costs, as well as the firm's financial losses. Looking at Blue Apron's historical financials, it can be seen that the net income and expenses aren't significantly affected by the company's foray into the wine business and are instead more affected by the service's active subscriber count.
- Blue Apron had a higher-than-average churn rate of about 25% for the first two years of a customer using the service. How would this have impacted the profitability of the firm?
  - Having a churn rate of 25% for the first two years of a customer's use of the service means that a quarter of Blue Apron's customer base quits the service within their first two years of use. The number of customers ending the service within two years greatly hurts Blue Apron's profitability on the simple principle that you cannot continue profitability if you are losing your customers. The churn rate also hurts Blue Apron harder because of the their consistent losses each year. As can be seen in their annual financials, Blue Apron's popularity and subscriber base was directly responsible for their available resources. The correlation is most visible between 2017 and 2019: when the service became less popular,

their net income nearly halved from $881 million to $450 million, coinciding with their active subscriber count, which dropped from 746 thousand to 351 thousand in the same timeframe.