Easy Meal Prep Industry: The Case of My Healthy Kitchen

Marcy Courier, The University of Tampa

Abstract: *This disguised case involves a couple contemplating opening an easy meal prep store. It is based upon the rapidly changing industry. The local market, branding, and type of ownership are examined.*

INTRODUCTION

On January 9, 2009, Andrew and Carol Marshall were deciding if they should open "My Healthy Kitchen," an easy meal prep store in the Raleigh-Durham, North Carolina area. Andrew currently works as a chef in an upscale restaurant, and Carol manages a local health food store. Because they both have a passion for healthy meal preparation and eating, they had been contemplating opening a health food restaurant. They did not move forward with the restaurant idea because of the high start-up costs and the extremely long hours that would be required to be successful. According to Michael Pollan, an author of two food books, what people care most about is what they should eat for their health and the health of their families? (9) Although forecasts for organic product sales had not been good, 2008 saw an increase of 15.8%. A survey by the Lieberman Research Group on behalf of the Organic Trade association found that organic food sales grew at a faster rate than general food sales in spite of a slump in pricier foods (6).

In March 2004, the first easy meal prep store opened in Raleigh. Carol heard about the store from her sister, Ann. She could not say enough about the quality of the food and how much time it was saving her in the evenings after work. Carol told Andrew about it, and they decided to go see what Ann was raving about.

The Concept

Delicious, ready to heat and eat meals make life much easier for a professional woman who has little time to cook for her family. Nutritious home-cooked meals are more appealing than fast food or take-out. In just two hours, 6-12 meals can be prepared and only require thawing and heating. All of the ingredients and recipes are arranged for the customer who assembles the meals and places them into freezer containers for later use. The "super moms" who juggle work, children's activities, and other obligations feel better about what they are serving their families for dinner. Singles, empty nesters, and seniors also frequent easy meal prep stores.

The Industry

New easy meal prep stores open and close frequently around the country. Most are privately owned, single stores, some are multiple stores, and more and more are franchises. The start-up costs for this industry are fairly reasonable. Many people believe that it is a straight forward business mode, and, therefore, no prior experience in the food industry is needed. Basically, all that is needed to set up a store is a commercial kitchen, a storefront in a heavily trafficked area, and an appealing interior design. The actual start-up costs are $20,000- $500,000 (See Table 1). Branding is difficult because there are very few ways to distinguish one store from another. New entrants merely have to look at the industry standards, evaluate some of the companies in the area, and incorporate best practices.

TABLE 1: Initial Start-up Costs (3)

Category	Low-cost	Typical	High-end
Equipment	$12,000-$43,000	$42,000-$53,000	$42,000-$73,000
Website and Software	$3,000-$18,000	$8,000-$18,000	$18,000-$30,000
Build-out	$0-$6,000	$50,000-$100,000	$100,000-$300,000
Upfront Marketing	$1,000-$5,000	$2,000-$20,000	$2,000-$30,000
Recipes	$1,000-$5,000	$2,000-$5,000	$5,000-$15,000
Losses before Breakeven	$2,000-$20,000	$10,000-$30,000	$10,000-$50,000
Other	$2,000	$2,000-$10,000	$2,000-$10,000
Totals	$21,000-$100,000	$116,000-$236,000	$179,000-$508,000

Easy meal prep stores are "neighborhood" stores similar to a supermarket. The surrounding community is the market. Therefore, it is not unusual to see stores opening up within a mile from each other. Large supermarket chains and upscale grocers are "getting into" the meal prep business. It is a natural product extension for a supermarket to enter the easy meal segment of the market. The incentive is enhanced by the fact that supermarkets frequently have lease agreements that specifically state that "no competitive stores may occupy a storefront in the strip mall in which they reside". One can argue that supermarkets are not direct competitors because the customer does not prepare the meal. Instead, in the refrigerator cases of most supermarkets there are fresh, pre-packaged, ready-to-cook meals.

The easy meal prep industry is experiencing a downturn as of 2008 (2). According to the Easy Meal Prep Association, in March 2007, there were 395 companies and 1,270 outlets. As of March 2009, there were 317 stores and 701 outlets. Total count for stores is down 36% in the U.S. in 2009 vs. 2008. Different regions in the U.S. have experienced varying loss of stores, but all the regions are down at least 23% in that time period (See Table 2). The Southeast Region, to which the Raleigh-Durham area belongs, has seen a 28% loss in number of stores. Within the Southeast Region, North Carolina has fared a little better with a 24% loss (See Table 3).

TABLE 2: Regional Numbers of Stores (3)

States	Year						Decrease 08 vs. 07
	2002	2003	2004	2006	2007	2008	
New England		1	3	42	56	43	23.21%
Southeast		5	17	218	282	203	28.01%
Pacific	4	21	50	232	281	185	34.16%
Mid Atlantic		2	5	83	139	91	34.53%
South Central		2	30	128	121	79	34.71%
North Central		10	39	293	315	177	43.81%
Mountain		5	29	127	159	89	44.03%
Total	4	46	173	1123	1353	867	35.92%

Revenues in the industry are $270 million, and analysts predict that by 2010, revenues will exceed $1 billion. The average store revenue in 2006 was $400,000. New stores tend to have less than 30% repeat business, while established stores can have over 50% repeat business. (3) As reported on August 2, 2006 by Mark Albright, St. Petersburg Times Staff Writer; a local entrepreneur stated, "People are starving each other out. Nationwide, average store revenues leave little after rent and expenses." (10)

TABLE 3: Southeast Stores (3)

State	Year						08 vs. 07
	2002	2003	2004	2006	2007	2008	
Alabama	0	0	0	4	7	8	14.29%
Florida		2	5	74	92	64	-30.43%
Georgia		1	6	33	39	25	-35.90%
Kentucky		1	2	8	8	11	37.50%
Mississippi				2	2	2	0.00%
North Carolina			1	39	51	39	-23.53%
South Carolina				15	15	9	-40.00%
Tennessee			1	17	26	18	-30.77%
Virginia		1	2	26	42	27	-35.71%
West Virginia							
Total	0	5	17	218	282	203	-28.01%

There are many franchises in the easy meal prep industry (See Table 4). Clearly franchises enjoy economies of scale as they can reduce costs by purchasing supplies in large quantities. Franchisees frequently have menu preparation, web sites, and bookkeeping assistance provided by the franchiser (1). Some use their own farms for fresh herbs and vegetables (3). Franchises are also experiencing losses in the number of stores (See Table 4).

TABLE 4: Sample Franchise Numbers (3)

Franchise	Year Started	# Stores as of 12/31/07	# Stores as of 12/31/08	Percentage Loss 08 vs. 07
Dream Dinners	2002	233	167	28.33%
Super Suppers	2003	195	110	43.59%
Dinner by Design	2003	58	38	34.48%
Entrée Vous	2004	44	38	13.64%
The Dinner A'Fare	2004	26	29	-11.54%
Dinners Ready	2004	36	21	41.67%
Let's Dish	2003	32	21	34.38%
Supper Solutions	2004	22	17	22.73%
Dinner My Way	2005	23	15	34.78%
Supper Thyme USA	2004	28	14	50.00%
Let's Eat	2003	20	12	40.00%
No Feed No Fuss Means	2006	5	12	-140.00%

The Raleigh-Durham-Cary Market

Raleigh, Durham and Cary are in a region in the Piedmont of North Carolina. In 2006, the number of new jobs was the highest it has been in the last few years. More companies are coming into the region. The biggest job growth is in professional and business services. (4). This region is home to three prestigious research universities. The universities provide the education needed to have a strong workforce.

The greater Raleigh area is home to 1.5 million people. The growth of the Raleigh-Durham-Cary area far exceeds that of the U.S. as a whole and that of North Carolina. North Carolina has seen a population growth of 15% in the last eight years while the major cities around Raleigh have grown 21% (See Table 5). Raleigh is the fastest growing city in this area (See Table 6).

TABLE 5: Population Growth of North Carolina vs. U.S.A. (8)

	2000	2008	% Growth
North Carolina	8,046,500	9,222,416	14.6%
United States	281,424,602	304,059,724	8.0%

TABLE 6: Population of Major Cities in Raleigh-Durham-Cary Area (8)

City	2000	2006	% Growth
Durham	186,996	209,009	11.8%
Chapel Hill	44,102	49,919	13.2%
Cary	94,517	112,414	18.9%
Raleigh	276,094	356,321	29.1%
Total	601,709	727,663	20.9%

The Raleigh-Durham-Cary area is very well educated. More than 40% of its citizens have a four year college degree or higher (See Table 7).

TABLE 7: Raleigh-Durham-Cary Area Educational Level (8)

County	% of Population
Chatham	27.60%
Durham	40.10%
Franklin	13.20%
Harnett	12.80%
Johnston	15.90%
Orange	51.50%
Person	10.20%
Wake	43.00%
CSA Average	36.10%
North Carolina Average	22.50%
U.S.A. Average	24.10%

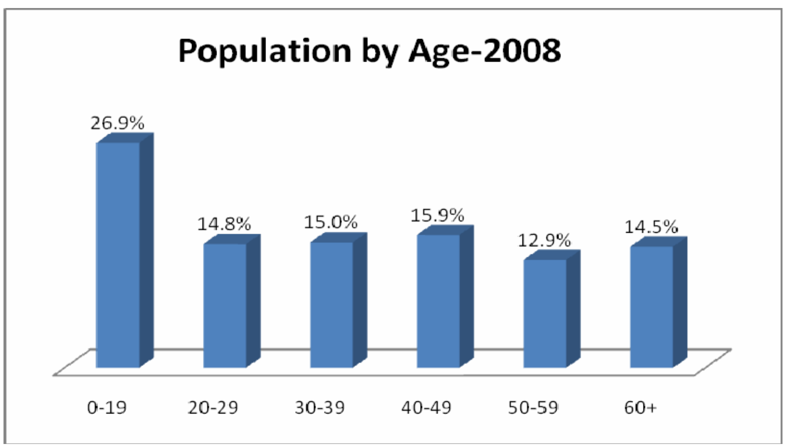
Wake County is the wealthiest county in the area with a median household income of $61,700. This income level is higher than both North Carolina and the U.S.A. (See Table 8).

TABLE 8: Raleigh-Durham-Cary Area Median Incomes (8)

County	Income - 2007
Chatham	$53,164
Durham	$47,885
Franklin	$44,683
Harnett	$39,649
Johnston	$47,773
Orange	$55,028
Person	$42,140
Wake	$61,706
Average	$54,846
North Carolina Average	$44,472
U.S.A. Average	$50,746

The Raleigh-Durham-Cary area is young. Almost 60% of the population is between the ages of 20 and 59. Nineteen percent are under the age of 20—which would imply a large workforce of parents (See Figure 1).

FIGURE 1: 2008 Raleigh-Durham-Chapel Hill Population by Age (4)

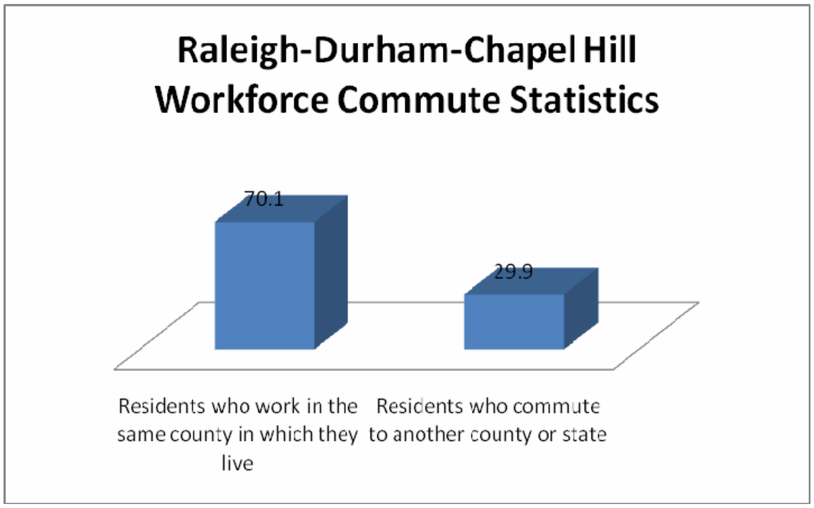


The Raleigh-Durham economy is growing and therefore more professionals will continue move to the area for professional jobs. Most area residents work in the same county in which they live (See Figure 2). Raleigh is a terrific city for professionals according to *Money* and *Forbes*. In 2006, *Money* ranked Raleigh as #4 in *Best Big Cities*. In 2007, *Forbes* ranked Raleigh #1 in the *Best U.S. Cities to Find Employment* survey (8).

The Competition

There are several easy meal prep stores in the Raleigh-Durham-Cary metropolitan area. Super Suppers, Supper Thyme, Entrée Vous, and Entrees Made Easy have franchisees in the area. Most of the stores are single stores not franchises. All but two of the easy meal prep stores are located in shopping centers or strip malls. Some are within two miles of each other. Two stores closed after being in business for six months and one year, respectively.

FIGURE 2: Workforce Commute Statistics (5)



The Mixing Bowl and Dinners at Home have distinguished themselves from the other easy meal prep stores. The Mixing Bowl has an exquisite selection of wines, and a "learning about wines" class. Dinners at Home can adapt easily and well to the different dietary needs of its customers. With 24 hours notice they can have non-fat, gluten-free, sugar-free, and without wheat or MSG. The other competitors use the basic business model "prepare 6-12 meals in two hours" (2).

Supermarkets and specialty stores offer products that are in direct competition with the easy meal concept. Kroger and Harris Teeter have a large selection of freshly made meals. Whole Food also prepares organic meals to take home and cook. Gourmet stores like Simple Pleasures Market, Dulet, and Hickory Market on Main, are very popular with the Baby Boomers. Earth Fare and Harmony Farms prepare organic and health ready to go entrees. PigglyWiggly and Publix are placing easy meal prep centers in their grocery stores on a limited basis in other states. (3)

Sample Stores in the Area

Sample store one is located within the Raleigh beltway near Carolina County Club. This is an old, established area where "old Raleigh" families live and play. It is one of the more expensive areas, and the average age is higher than areas outside the beltway. There are five exiting easy food prep stores in Raleigh although none other within the beltway.

The store is located in a medium-sized strip mall which also includes two small restaurants, a popular coffee shop, a sports clothing store and a fine wines store among others. The strip mall is located a couple of blocks from the main street and has limited parking. A parking garage is located within a block and vehicles can load and unload in the back of the mall where there is an entrance to the store. Store one runs 12 sessions spanning Wednesday through Saturday—primarily during the day and employees five part-time people. This store nets approximately $3,000 per month.

Sample store two is located in Durham where there are no other easy food prep stores. Durham is growing rapidly largely due to its vibrant quality of life and commitment to arts and culture. Durham's neighborhoods surround Duke and North Carolina Central universities and the Research Triangle Park and range from historic homes on tree-canopied streets to renovated downtown lofts to communities planned around lakes or golf courses. This store is located in a standalone building with ample parking on a major road near the Southpoint mall.

This store runs 15 sessions Monday through Saturday employing 10 part-time employees. Store 2 nets approximately $5,000 per month.

Sample store three is located in Cary. Cary has a small town, friendly atmosphere and includes many young, intelligent, and hard-working men and women including many double income families. Chapel Hill frequently receives accolades for being a top location in which to live, visit, and do business. Many recreation opportunities are available. Carey has a many restaurants, taverns, clubs which are very popular.

Store 3 is located in a small strip mall on a major road. It has adequate parking in the front of the store. Also located in the strip mall are a laundromat, a child care center, a hair salon, and an art gallery. There is no other easy food prep store in Cary.

This store runs 18 sessions Monday through Saturday and employees 20 part-time employees. Store 3 nets approximately $7,000 per month.

The Marshall's first-year goal is to have $ 300,000 in revenue and a profit of $75,000 They recognize the need for a 15% growth rate per year and a goal of 40% repeat customers to meet these financial goals.

The Customer Experience

The typical customer is looking for convenience, time, location, ease of preparation, and quality of food. All buyers expect stores to be clean, the food to be fresh, and the staff to be helpful. Cost and menu selection may also be important.

What Distinguishes High-Volume Stores?

To succeed, a meal prep business needs high revenue. Seven attributes of high volume stores that are thought to contribute to their success are:

- Almost all high volume stores and high volume regional chairs have at least one owner with experience in sales and marketing or in advertising and PT.
- High volume storeowners tend to have large personal networks and use these to fill the store during the initial months.
- High volume stores generally did well in generating favorable PR during the first 3-6 months of opening. Because of the difficulty of explaining the concept, newspaper articles and television stories have been the most effective.
- High volume stores are well-run operations. There is a lot of attention to detail in every stage of the process.
- Some high volume stores in more crowded markets have succeeded by providing an innovation or pursing a new niche not well served by competitors.
- High volume stores focus on customer satisfaction. Many high volume stores do little discounting.

As printed in the *Easy Meal Prep Association Newsletter*, March 2007

Registration and Arrival. Most stores have web sites that provide general information, monthly menu selections, and open appointment times. Customers may register on-line for a session or call the store. Credit cards, checks and cash are all usually accepted. When customers arrive, they are provided with aprons and containers for their entrees. Some stores provide snacks and beverages for their customers. Most are asked to bring a cooler or laundry basket to transport their entrees home from the store.

Meal Preparation. Customers move from one preparation table to another. Each station is stocked with all of the ingredients needed to prepare the various entrees. Recipes are provided with simple instructions, and even those who do not cook have no trouble assembling the meal. Customers combine the required ingredients and have the option of making minor changes to meet their individual tastes. The entrees are then packaged in containers provided by the store or brought by the customer.

Space permitting, some stores allow the customer to bring a friend to split the work and share the entrees. Typically, the entrees may be divided into two smaller portions—frequently for a small, additional charge. Most stores encourage customers to schedule private parties of eight or more. The host will typically receive a bonus, or the entrees will be discounted slightly. A party atmosphere is created with food, drinks, music and whatever else the customer requests.

Entrée Selection and Prices. Customers are given an option of preparing 8, 10, or 12 entrees per visit. Most stores provide 12 to 14 entrees from which to choose. Proven favorites are frequently repeated while new items are added monthly. Most of these entrees serve four to six people.

Costs can vary for entrees. Some stores have different prices depending on the cost of the entrée. Most stores charge a set fee for the session based upon the number of entrees prepared. Prices range from $169 to $225 for 12 entrees and $135 to $175 for 8 entrees. Side dishes and desserts are available for purchase at some stores. Recipes for sides and dessert may be provided**.** Some stores are stocking cooking accessories, condiments, and other products that they believe will be valuable to their customers.

While most customers attend a two-hour session, some prefer to have their entrees prepared for them for pickup or delivery. Not all stores provide these services, but those that do charge a premium price for the additional service. Two to three dollars more per entrée for store preparation is not unusual. Delivery costs vary and the average cost is about $25.00

Marketing

Most stores have web sites with store information and registration capabilities.
Store marketing techniques include: money-off coupons; newspaper, infomercials, radio advertising; newsletters; brochures; and direct mailings. As competition increases, there are more creative ideas, major TV spots, incentives, strategic alliances, and gimmicks.

Incentives

Stores offer various enticements to either grow the customer base or improve retention of existing customers. Summers are traditionally slow for the food prep industry so additional enticements such as entrée discounts, free sides and desserts, and free entrée preparation are offered. Frequent customers, and those who refer customers, receive incentives at many stores. New moms often receive several months free entrée preparation.

Location, Location, Location

As the Marshalls are attempting to determine where to establish their "My Kitchen" facility, they have run into numerous roadblocks. A location with a large, local customer base seems extremely important.

Supermarket chains such as Harris Teeter, Kroger, Winn-Dixie, and Safeway conduct significant research to determine locations for their stores. Close proximity to a grocery store seems like a good place to put an easy meal prep store. However, supermarkets usually have clauses in their leases which prohibit competitors from locating in the same strips. Lawsuits have determined that food prep stores are competitors and so cannot be located in a shopping center anchored with a large supermarket. Lack of customer parking and access to major roads is also a consideration.

Schwan's, a home delivery company, delivers frozen foods in the Raleigh area. Every two weeks, they will delivery from over 400 products, all with a 100% quality guarantee. The delivered items include breakfast and lunch items, appetizers, entrees, side dishes, and desserts. This competition can affect most locations. Numerous health food stores, such as Whole Foods Market, and organic restaurants are located in the Raleigh-Durham-Cary area (7).

Price Promotions that Work

Many high-volume stores do not rely on low pricing or special promotional offers to generate volume in their stores. Some "tried and true" approaches to price promotions that appear to work for easy meal prep business are:

- Give something away for free to anyone who signs up for a session next month while they are in the store. The most typical freebie is a dessert or cooking dough that the customer can have as an instant reward.
- Work with a charitable cause and allow a percentage of any order to go to this charity.
- Provide a value bundle to encourage customers to purchase more.
- Give a one-time try-it special.
- Give referral points that can be used to get free meals or discounts to anyone that refers other customers to the store and those customers purchase something.

As printed in the *Easy Meal Prep Association Newsletter*, March 2007

CONCLUSION

The Marshalls need to make some important decisions. They want to start their own business and given their skills and passions, they feel an all natural, easy meal prep store would be something they would enjoy. At the same time, they must ascertain if such a store in the Raleigh-Durham-Cary area would be feasible. The Marshalls have given much thought to what their mission would be and have come up with the mission statement, "To provide nutritious, delicious, and all natural ready-to-cook meals so that the ones you love stay healthy.". Their first-year goal is to have $300,000 in revenue and a profit of $75,000.

The Marshall must analyze the industry as a whole and then look at specifics as they pertain to their geographical area and concept. Questions should be answered such as:

(1) What is the overall outlook for the easy meal industry? Are existing stores doing well? Is the number of stores, both nationally and locally, increasing or decreasing?
(2) Will the Raleigh-Durham-Cary area support this additional store?
(3) Is the health food concept feasible?
(4) If they choose to proceed with this concept, what type of ownership structure should be chosen—franchise or privately owned? Would a high-end startup or a typical pricing structure work better for this concept?

REFERENCES

(1) Easy Meal Prep Newsletter, March 2007, www.easymealprep.com.
(2) Easy Meal Prep Newsletter, May 2009, www.easymealprep.com.
(3) Meal Prep Industry Facts and Figures Guide (2008), http://www.easymealprep.com.
(4) raleigh-wake.org/files/Research_Triangle_Regional_Datebook_2006-2007.pdf
(5) Wake County Economic Development Program, 2006-2007.
(6) www.foodnavigator-usa.com, June 2009.
(7) www.happy.cow.net, May, 2009.
(8) www.Quickfacts.census.gov, May 2009.
(9) www.seattletimes.nwsource.com.
(10) www.sptimes.com/2006,08/02/news.

Teaching Note/Instructor Manual available from the Journal of Business Cases and Applications.