



BLUE APRON

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of Bachelor in Business Administration

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DECLARATION

I hereby declare that no portion of the work referred to in this thesis has been submitted in support of an application for another degree, or qualification thereof, or for any other university or institute of learning.

I declare that this thesis is my independent work. All sources and literature are cited and included.

I also hereby acknowledge that my thesis will be made publicly available pursuant to Section 47b of Act No. 552/2005 Coll. and AAU's internal regulations.

Arina Tokoryan

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Executive Summary

The aim of this paper is to critically analyze the current strategy of Blue Apron, an American meal-kit delivery service company, to further propose potential strategic alternatives for improvement and to introduce a new recommended strategy.

The analysis seeks to address the following strategic question: *in 2017, despite reporting steady revenue numbers, Blue Apron is faced with a number of challenges: stock prices falling 70% from the IPO earlier that year along with a 15% decline in customer growth due in part to rapidly growing competition. What strategy should Blue Apron undertake in order to regain and sustain its competitive advantage?*

The company's performance has been assessed and evaluated in terms of the factors both internal and external to the company. An in-depth analysis of the current strategy and its implementation along with the industry analysis implications have been performed. Based on the analysis executed it was possible to identify strengths, weaknesses, opportunities and threats integral to the company, which further served as a basis for crafting three new strategic alternatives. Finally, the new recommended strategy was introduced that directly answers the strategic question posed, which was formulated as follows: *to initially partner with a retail grocery chain to sell the kits in-store while expanding the product portfolio to introduce a greater variety of meal options.*

1.0 Introduction

Blue Apron is an American meal-kit delivery service pioneer. Established in 2012 in New York City, the company had quickly gained popularity across the United States due to its unique and novel business model. The company's idea is to provide an alternative to traditional grocery shopping, dining out and ordering takeout from restaurants. It does so by sending their customers boxes with fresh food that has been precisely measured out and packaged in refrigerated containers along with beautiful and easy-to-follow recipe instruction cards. All meals are crafted exclusively by a selection of high-end chefs. Essentially, all the customer has to do is open the box, unpack the ingredients and get cooking. Blue Apron had delivered a total of 159 million meals to 50 states in the US as of 1Q 2017¹. There are two subscription plans available at the moment — a family plan that serves 4 people for \$9.99 per meal and a two-person plan for \$8.74 per meal. Both plans deliver 3 meals per week.

Throughout the company's lifespan, it has seen a steady revenue pace but is now losing customers to other market players while its IPO has been named “the worst performing IPO of 2017.”² Blue Apron, although the biggest player on the market at the moment, suffered a major decline in order sales followed by a sharply thinning customer count in the face of intensifying competition. Thus, the following strategic question is posed: *in 2017, despite reporting steady revenue numbers, Blue Apron is faced with a number of challenges: stock prices falling 70% from the IPO earlier that year along with a 15% decline in customer growth due in part to rapidly growing competition. What strategy should Blue Apron undertake in order to regain and sustain its competitive advantage?*

¹Blue Apron Still Dominates the Market For Meal Delivery Kits but Its Market Share Is Plummeting

Rani Molla - <<https://www.recode.net/2017/11/1/16581142/blue-apron-market-share-decline-meal-kit-delivery-hello-fresh>>
Rani Molla - <<https://www.recode.net/2017/11/1/16581142/blue-apron-market-share-decline-meal-kit-delivery-hello-fresh>>

² Blue Apron: No Closer To Recovery Than Ever Before <<https://seekingalpha.com/article/4147911-blue-apron-closer-recovery>>

2.0 Company Overview

Please refer to section Company Details in the Appendix for the strategic overview

2.1 Stock Performance

Following a series of revenue-generous years with the service becoming more widely recognized by the US population, Blue Apron took the chance to file for their initial public offering to trade at New York Stock Exchange in June 2017. Their target price was initially set between \$11 and \$15, but the company ended up with an offer price of \$10 per share. Blue Apron's IPO received a lot of attention from both the general public and the investors, because it symbolized the triumph of the meal kit services within the food delivery industry.

Since their initial public offering, the stock has fallen more than 70% and seems to keep on plunging. In February 2018, Blue Apron stock trades at \$3.10 per share³.

2.2 Customer Retention

Blue Apron has seen a 15% decline in customer base since the year 2016.⁴ The main reason for that is the 'war on price' due to increased industry competition. According to L.E.K 2016 Millennial Retail and Travel Survey, 57% of Americans discontinue their subscription to meal-kit services due to the service being too expensive⁵. Blue Apron's business strategy implies offering lower industry prices (\$9.99 per person per meal for a two-person plan and \$8.74 per person per meal for a four-person plan)⁶ and it is still losing customers. Blue Apron gives away a lot of free meals to woo new subscribers, but ends up losing them due to an extremely high customer churn with only 29% of the customers sticking around a year after the initial sign up⁷.

The main reasons for customers canceling subscription are meal option variety and customer service (*please see section Poor Customer Service in the Appendix*).

³ Aprn : Summary For Blue Apron Holdings Inc
<<https://finance.yahoo.com/quote/APRN?p=APRN>>

⁴ Blue Apron Holdings, Inc. 10-k Feb. 22, 2018 5:18 Pm
<<https://seekingalpha.com/filing/3899796>>

⁵ Why A Shakeout IN Meal Kit Industry Is Likely Executive Insights <https://www.lek.com/sites/default/files/insights/pdf-attachments/1948_Shakeout_Meal_Kit_Industry_LEK_Executive_Insights_v2.pdf>

⁶ Blue Apron: Fresh Ingredients, Original Recipes, Delivered to You
<<http://www.blueapron.com>>

⁷ Amazon and Blue Apron: Why Meal Kits Haven't Changes Cooking
<<http://time.com/4863064/amazon-meal-kits-blue-apron-cooking/>>



Figure 1. "What are the primary reasons you do not plan to continue purchasing from meal kit companies? Select up to 3 responses." The main reason for cancelling subscription is that the service is too expensive, followed by poor recipe range and variety, packaging issues and bad customer service. Source: L.E.K. 2016 Millennial Retail and Travel Survey. Respondents were asked

Figure 1 suggests that customers cancel their meal kit subscription because they do not find the service affordable.

2.3 Rivalry

Blue Apron has made significant financial effort to try to battle the intense competition mostly by investing heavily into marketing and advertising and launching a new production center with more efficient operational structure to support the production activities. Blue Apron does not compete aggressively against its rivals due to the lack of effective corporate strategy, thus losing customers to rivals that may offer better deals on the service.

2.4 Mission Statement

Blue Apron's mission is formulated as follows: "Our mission is to make incredible home cooking accessible to everyone."⁸

This mission statement is ineffective due to a number of reasons. First, it is too broad, unclear and lacks further explanation of how the mission is to be achieved. Second, it lacks the explanation of its strategic positioning within the market, values that the company holds and its target group or region.

The recommended mission statement for Blue Apron is introduced in Section 16.1

Revised Mission and Vision.

2.5 Vision Statement

Blue Apron's vision statement is as follows: "Our vision for the future is ambitious: to build a better food system. We are transforming the way that food is produced, distributed, and

⁸ FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 Blue Apron Holdings, Inc. -- <https://www.sec.gov/Archives/edgar/data/1701114/000104746917003765/a2232259zs-1.htm>

consumed. We believe a better food system will benefit not only consumers and stockholders, but also the planet, and we manage our business for the benefit of all three.”⁹

This vision statement sets forth the company’s focus on sustainability and bettering the environment. However, the vision statement does not provide clear direction of where the company is going in terms of its operations. Building a better food system is not a strategic goal for the company because it is, in the end, a for-profit organization that has to generate revenue. It does not provide a clear vision of how the company will look like or be structured in 5-10 years time.

The recommended vision statement for Blue Apron is introduced in Section 16.1 *Revised Mission and Vision*.

2.6 Company Overview Conclusion

Blue Apron’s market position, low customer satisfaction and a badly performing IPO show a worrisome trend of customer loss due to inability to battle competitors, promote customer loyalty or offer a unique enough service to differentiate the product. The company’s vision and mission statements are not articulated clearly to portray what Blue Apron’s corporate strategy is and where the company is going.

⁹ FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 Blue Apron Holdings, Inc. -- <https://www.sec.gov/Archives/edgar/data/1701114/000104746917003765/a2232259zs-1.htm>

3.0 Blue Apron Business Model

Value Proposition	Service convenience, Focus on sustainability, Innovative idea, Sense of self-fulfillment with cooking
Customer Segments	Young adults & millennials, Med-higher income families, Urbanites
Channels	Website sales, Variety of advertising activities
Customer Relationships	Online subscriptions, Automated service, Limited personal assistance through customer service
Revenue Streams	Meal-kit subscriptions (primary), Sales of products of subsidiaries
Key Resources	Professional chefs creating recipes, Fulfilment centers, Online sales platform (website), Intellectual Property
Key Activities	Recipe crafting, Meal-kit assembly, Managing supply chain, Managing distribution platform, Service marketing
Key Partners	Farmers, Food Suppliers, Logistics companies, Loyal customers
Cost Structure	Salaries and wages, Operating expenses, Marketing expenses, Fulfilment center servicing

3.1 Value Proposition (please see Appendix for the Value proposition canvas)

Blue Apron’s value proposition adheres to convenience, accessibility and newness to provide a unique service to the customer. The company’s value proposition can be formulated as follows: *“To offer the convenience of food delivery service to let customers enjoy sophisticated home-cooked meals at moderate prices while promoting sustainability.”*

This value proposition delivers to a number of customers’ needs, wants and desires. First, it offers a convenient, accessible and moderately priced service to the customer, which is one of the main reasons for the subscription purchase due to a simple and quick online order process, speedy delivery and preselected menu options. Neatly designed packages, pre-portioned

ingredients and recipe brochures are also coherent with the value proposition. All of the aforementioned points are targeted to trigger the customer's desire to cook at home, try new recipes and enjoy simple ordering process with Blue Apron. On top of that, Blue Apron lets the customer be a part of "something big" by focusing on sustainable food system and letting their customers know that by cooking with Blue Apron they are helping the planet by reducing waste (no leftover food) and supporting organic farms and purveyors.

Customer's desire for unique and luxury cooking experience are met with Blue Apron's exclusive chef-crafted meal recipes, which adds to the customer satisfaction and provides a sense of self-fulfillment, further fostering emotional connection to the brand.

3.2 Customer Segments

Constituting it as one of the key points the company prides itself on, Blue Apron aims to deliver its value proposition to mass market, positioning its service to be widely available and easily accessible to virtually anyone.

While the company attempts to target a wide range of customers, its typical subscriber is a single or newly married professional living in an urban area, aged 25-44.¹⁰ A broader customer range is one of the key areas that Blue Apron can improve upon.

The majority of the clients are located in large cities across the United States (57% living in top 10 states)¹¹ and often do not have the time or will to decide on meals to prepare at home or take grocery shopping trips, which means they are extremely time-sensitive and choose to use the service due to its convenience. Blue Apron customers (especially returning ones) are usually those within medium to high income brackets, mostly because the service is perceived as premium.

3.3 Channels

The only distribution channel the company operates through is direct web sales. Blue Apron only uses its website to sell and deliver the meal-kit boxes and its supplementary products and provide customer support.

¹⁰ Blue Apron Holdings, Inc. 10-k Feb. 22, 2018 5:18 Pm
<<https://seekingalpha.com/filing/3899796>>

¹¹ Blue Apron Holdings, Inc. 10-k Feb. 22, 2018 5:18 Pm
<<https://seekingalpha.com/filing/3899796>>

To attract and retain customers, Blue Apron raises brand awareness through advertisements and promotions — online (mostly on social media and partner websites through digital advertisement), on TV and offline (street signs, banners, etc.).

This is another key area for improvement that Blue Apron should consider.

3.4 Customer Relationships

Blue Apron has little to no direct interaction with a customer ordering meal-kit boxes, hence the self-/automated service nature of customer relationship. Any customer can easily subscribe to the service without any service assistant to further receive scheduled deliveries of the meal-kits to the door — the whole process is fully automated. There exists a customer service line to resolve issues or file a complaint.

3.5 Revenue Streams

The company generates revenue mainly from the sale of their meal kits (subscription cost for 2-Person or Family Plan). The company also generates revenue from Blue Apron Wine, a Blue Apron's subsidiary that sells selected wines and Blue Apron Market, which offers supplementary items such as kitchen utensils, cutlery, cookware and pantry supplies (like salt, pepper, chocolate, olive oil). Blue Apron also sells products of BN Ranch, a producer of sustainable poultry and meat, which was acquired by the company in February 2017. Blue Apron has claimed that the substantial amount of its revenue is generated from the sale of meal kits, which it is their primary revenue stream, with other sources of revenue being only supplementary.¹²

Evidently, due to gross profit margins being very thin (30% average) and net profit margins being negative (-20%, FY2017)¹³, a single primary revenue stream may not be enough to sustain a business in the face of competition and grow profits in the industry where switching costs are close to nonexistent or extremely low.

3.6 Key Resources

Unique combination of assets that Blue Apron possesses to deliver its value proposition to the customer and optimize allocation of resources and activities consists of human, intellectual and physical resources.

¹² Blue Apron Holdings, Inc. 10-k Feb. 22, 2018 5:18 Pm
<<https://seekingalpha.com/filing/3899796>>

¹³ Blue Apron Holdings (aprn)
<<https://ycharts.com/companies/APRN>>

Blue Apron relies heavily on its physical resources such as fulfillment and operations centers to receive, prepare, package and ship meal-kits. Similarly, human resources — workers and specialists working in these centers — are also crucial to the successful execution of the business model. One of the key resources Blue Apron has are tied with the partnerships the company has established (intellectual resource) with its supply chain — farmers, distributors, logistics partners.

3.7 Key Partners

On-time delivery of high-quality fresh ingredients is essential to Blue Apron’s business model optimization, thus supply and logistics partners are key for the company to quickly receive, prepare and deliver fresh ingredients to the customer at reasonable time and cost through eliminated third parties. Blue Apron’s main logistics partners are FedEx and UPS.¹⁴

The company also puts a lot of effort into promoting its sustainability program, whereby it focuses on eliminating food waste by carefully pre-portioning meal-kit ingredients, using only highest quality farm meat and produce and ensuring no food spoilage through eliminated middlemen (store warehouses, grocery stores, etc.).

To be able to accomplish that, a number of key partnerships with local and international farmers, importers and artisans are essential. Blue Apron establishes exclusive contractual relationships with most of its food suppliers, which means that, within the meal kit delivery industry, they are only able to sell to Blue Apron.

One of the major ex-suppliers — now Blue Apron’s subsidiary — of beef, lamb and poultry, BN Ranch, is globally recognized as “pioneer of animal welfare”¹⁵ and “godfather of sustainable meat”¹⁶. A number of other organic farms are exclusive company partners, like Rumi Spice (Afghani company), Sun Noodle (New Jersey), Severino (New Jersey), Vermont Creamery (Vermont), Reeves Farms (New York)¹⁷, and many others.

3.8 Cost Structure

¹⁴ Blue Apron and the Subscription Retail Supply Chain
<<https://logisticsviewpoints.com/2017/07/12/blue-apron-and-the-subscription-retail-supply-chain/>>

¹⁵ BN Ranch
<www.bn ranch.com>

¹⁶ Blue Apron Just Partnered with the Godfather Of Sustainable Meat - and the Move Will Transform Its Meal Kits
Leanna Garfield - <<http://www.businessinsider.com/blue-apron-bill-niman-bn-ranch-2017-3>>

¹⁷ Meet Our Recent Partners
<<https://www.blueapron.com/pages/meet-our-recent-partners>>

Blue Apron opts to deliver the highest value to the customer, hence the value-driven approach and a handful of major cost drivers.

Due to the nature of the business being reliant on timely delivery of ingredients to fulfillment centers and then of the meal-kit boxes to the customers, Blue Apron spends a chunk of its expenses on shipping and last mile delivery logistics (about 20-30% of total cost)¹⁸. Alongside logistics costs, production and operating expenses are rather costly for the company — especially with the servicing of the newly opened fulfillment center in New Jersey. Marketing expenses, though recently cut from 17% to 13%¹⁹ to fulfill the new operations center, are now pulled back up to account for a major cost activity for Blue Apron, as well as supply chain activities, exclusive partnerships and human resource expenses.

3.9 Key Activities

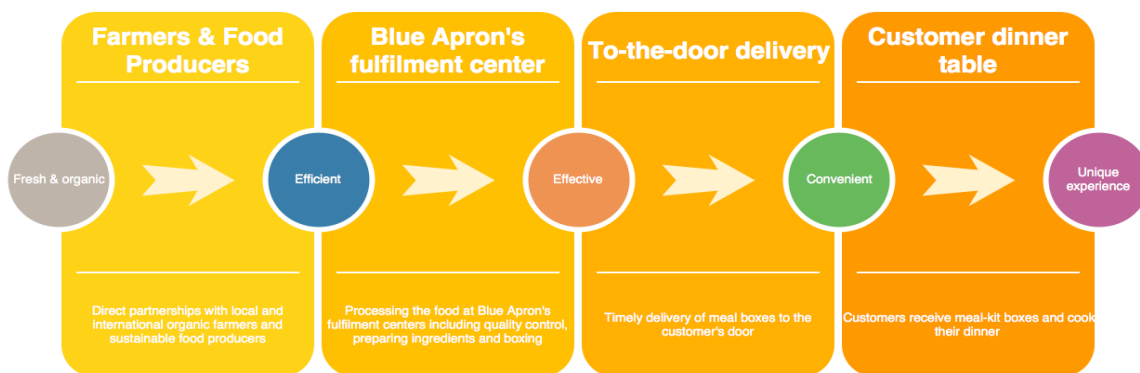


Figure 2. The above visual reflects the current Blue Apron business model and its end-to-end value chain. First, the company partners with farmers and suppliers of organic and sustainable food to later deliver to the company's fulfillment centers for quality control, packaging and boxing. Next, meal kit boxes are being delivered to the customer's door. Customers then can cook their meal with Blue Apron's meal kit. The above activities reflect several key components that are of value for the current business model: fresh and organic food, efficient and effective supply and distribution network, customers' convenience and unique cooking experience. Author: Arina Tokoryan, 2018.

The main activities Blue Apron performs in order to successfully deliver superior value to the customer are directly related to production, optimization and distribution of the service and also the way the company manages its supply chain network to support the main activities.

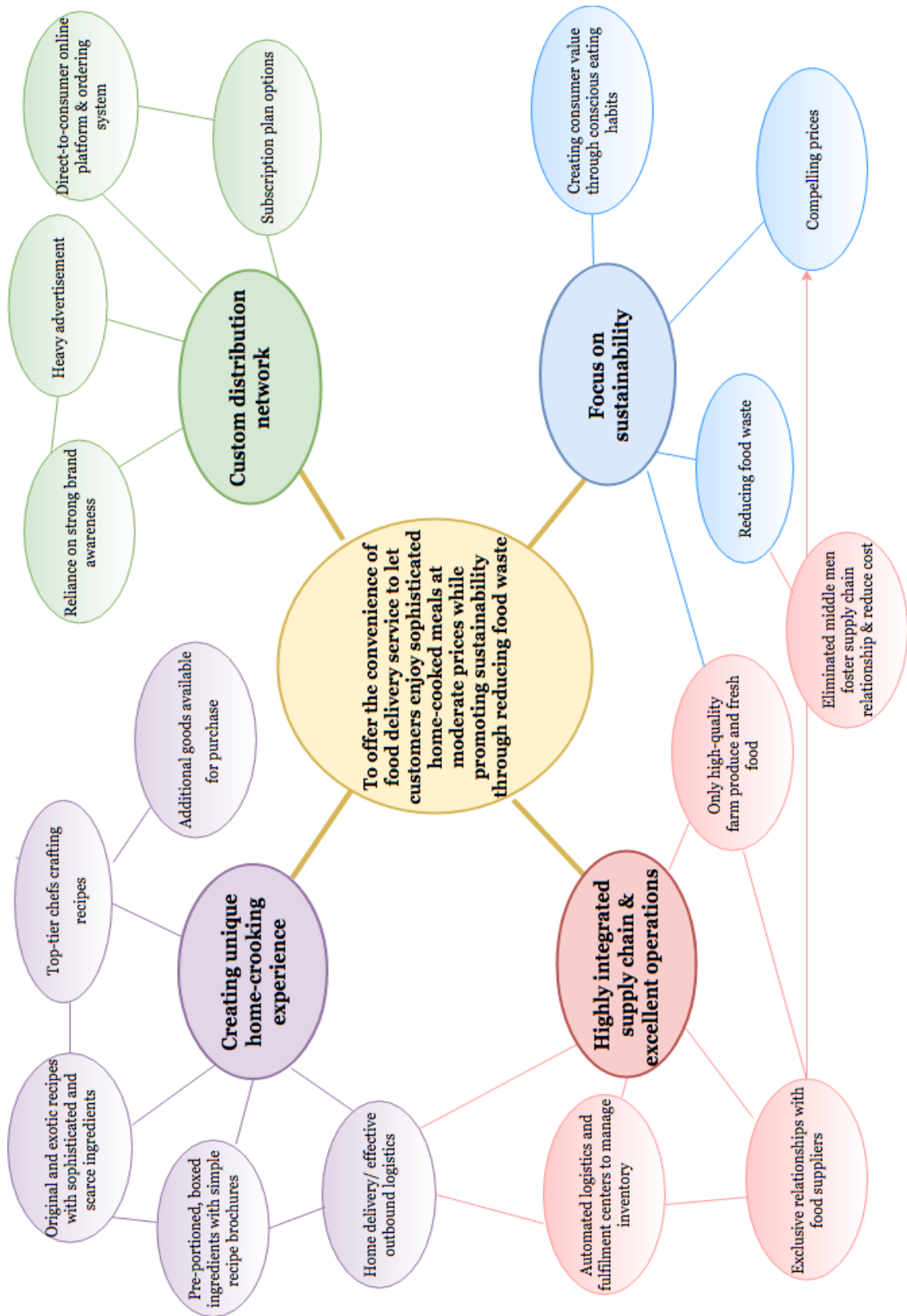
¹⁸ Shipping Plays Costly Role in Meal Kit Delivery, Jennifer McKeivitt - <https://www.supplychaindive.com/news/blue-apron-meal-kit-delivery-logistics/445653/>

¹⁹ Blue Apron Shares Jump After Losses Narrow
<<https://www.ft.com/content/bb827456-10ca-11e8-8cb6-b9ccc4c4dbbb>>

While the company outsources food production and most logistics operations, it relies on running its fulfillment and operations centers. Huge production areas (the new fulfillment center in Linden, NJ is 495 000 square foot and employs around 2 000 people) receive, quality control, prepare, package, store (refrigerate) and ship vast amounts of food, so the coordinated production system is a must for the company. As a newly employed program, the new fulfillment centers now operate an automated operations and inventory management system which ensures a smooth and timely production of service.

Another key activity Blue Apron undertakes is managing its supply-distribution network in a such a way that each of the company's affiliates and partners works exclusively with Blue Apron (within its industry) to offer the highest quality product and service.

3.10 Current Activity Systems Map



Creating a unique home-cooking experience

Pre-portioned, boxed ingredients with recipe brochures

An activity that provides customers with the unique home-cooking experience and adds to the novel, innovative business model, — whereby a customer receives a box of pre-portioned measured ingredients to cook at home.

In addition to the pre-measured ingredients, customers receive an elegant recipe brochure with cooking steps illustrations. Customers enjoy aesthetically looking things and Blue Apron acknowledges this fact by creating sophisticated recipe brochures, that almost look like they are hand-crafted. This adds appeals to the customer by further strengthening the emotional connection to the brand.

Home delivery/effective outbound logistics

Supporting the main activity, efficient and coordinated outbound logistics system adds to the customer experience and gives a sense of commitment to the brand. Coordinated and efficient outbound logistics system greatly supports the main activity.

Top-tier chefs crafting recipes

Blue Apron prides itself on partnering with the top, award-winning chefs to create recipes for them. Customers get a sense of uniqueness knowing that the recipes they cook at home were exclusively crafted ‘for them’ by top-tier professional chefs. This activity supports the brand’s customer value focus.

Additional goods available for purchase

There is a number of supplementary products available for purchase that Blue Apron offers. Besides kitchen cutlery and pantry supplies available on Blue Apron Market, the company sells an exclusive selection of wine along with the meal pairing tips, which further supports customers experience and adds to the activity uniqueness. All wine is sold through Blue Apron subsidiary — BAW (Blue Apron Wine). Customers can customize their meal kit subscription in such a way that they would receive a bottle of selected wine with each meal.

Original and exotic recipes with sophisticated and scarce ingredients

Blue Apron further supports the creation of unique home-cooking experience by crafting original and sophisticated recipes often with the use of scarce and rare ingredients — something that customers would not normally prepare themselves. This activity adds to the customer value.

Custom distribution network

Reliance on customers' brand awareness & connection

Being a meal-kit pioneer and having earned a powerful brand name within its industry, Blue Apron relies heavily on its brand awareness and recognition, along with the customers' connection to the brand, which results in a customized distribution network (loyal customers+new customers+those customers telling potential customers about the brand).

Heavy advertisement

Since inception, Blue Apron relied heavily on marketing and advertising, as these are one of the only activities the company can perform in order to acquire and retain customers. Marketing expenses have been significantly cut last year due to servicing the company's new facility, causing the customer base to shrink greatly. Thus, advertisement is the company's key activity within the distribution network.

Direct-to-consumer online platform & ordering system

Simple and intuitive, Blue Apron's direct-to-consumer online order platform is an easy 3-step process that adds to the convenience. This activity adds to convenience of the service, supporting the efficiency of Blue Apron's distribution network.

Subscription plan options

Currently, there are two subscriptions plans available for the customer to choose (2-Person and a Family Plan). In addition to that, customers that do not wish to include certain ingredients in their meal kits can specify that in their order to customize the subscription. This activity adds to the distribution network as it is the only service the company sells.

Integrated supply chain

Logistics and fulfillment centers to manage inventory

Blue Apron operates its fulfillment and logistics centers in such a way that the inbound and outbound operations are performed in a smooth and coordinated manner, thus relating to the supply chain relationship and outbound logistics/home delivery activity.

Exclusive relationships with food suppliers

More than 70% of Blue Apron food suppliers are in an exclusive contractual relationship with the company²⁰, meaning that the suppliers are not able to sell to any other company with the similar service. This activity adds to the uniqueness and integration of supply chain relationship.

Only high-quality farm produce and fresh food

Blue Apron offers only high-quality food to its customers and demands it from its suppliers, which adds to both the supply chain relationship and customer-centric focus activities.

Eliminated middlemen foster supply chain relationship and reduce cost

In this case grocery stores, middlemen would only complicate Blue Apron's activity system and add up to the cost which would have a direct effect on Blue Apron's meal kit cost. Through partnering with farmers, the company is able to reduce costs and strengthen its supply chain.

Focus on sustainability

Creating consumer value through conscious eating habits

Blue Apron actively promotes healthier eating standards through a strong focus on the sustainable food system, waste reduction and use of only organically grown produce and meat. Such activity adds to the customer's product value because it ultimately gives them a feeling of self-fulfillment by knowing that with each purchased meal kit, they support the planet's ecosystem.

Reducing food waste

Blue Apron positions itself as an eco-friendly company, meaning that each activity the company performs should in the end benefit the environment in some way. The company does so by reducing food waste through packing the exact amount of ingredients to match a single portion size. That way there is no leftover food that can be thrown away.

Compelling prices

By effectively integrating and coordinating its supply chain activities, Blue Apron was able to offer meals to the customers at lower to average prices compared to the competitors (say, Plated offers their meals at \$11.95 per person per meal²¹, while Blue Apron's family plan offers meals as low as \$8.74 per person per meal).

²⁰ Blue Apron: Fresh Ingredients, Original Recipes, Delivered to You
<http://www.blueapron.com>

²¹ Great Dinner Plans Start Here. Our plans are flexible-so you can always fit dinner to your life.
<https://www.plated.com/plans>

3.10.1 Strategic Fit

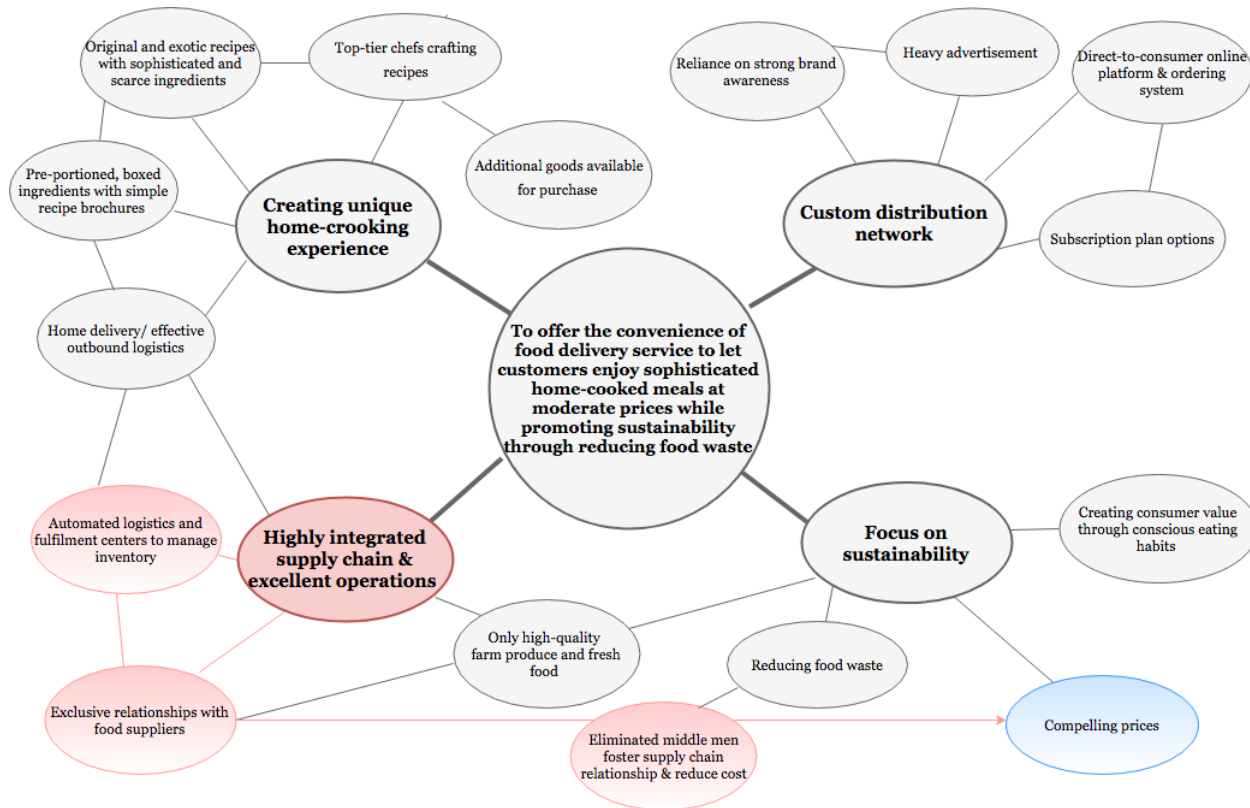


Figure 4. The above visual represents Blue Apron's activity systems map with the strategic fit area. Activities with identified strategic fit are colored. The company only has strategic fit within its supply chain and operations activities, which, because of efficient performance, results in lower price points. Author: Arina Tokoryan, 2018.

Blue Apron struggles to create strategic fit within its value chain and fails to successfully match its resources with the external environment which further proves its strategy to be unsustainable.

The company allocates almost all of its financial and human capital to support its supply chain relationship²². Because of that, the only activity that creates fit relates to the supply chain and operations management. This is done mostly through the use of automation in fulfillment centers to ensure efficient inventory management and also by eliminating middlemen in its supply chain through having exclusive partnerships with food suppliers, thus reducing cost and offering compelling prices.

²² Blue Apron Holdings, Inc. 10-k Feb. 22, 2018 5:18 Pm
<<https://seekingalpha.com/filing/3899796>>

The aforementioned activities partially support Blue Apron's value proposition, however just these activities alone are not enough to give the company competitive advantage against its competitors.

3.11 Competitive Advantage

At the moment, Blue Apron possesses no competitive advantage and is unable to compete on differentiation and product uniqueness due to its ineffective strategy.

Even though it is critical for the company to develop and sustain competitive advantage to be able to further compete with its rivals, Blue Apron lacks any clear long-term oriented strategy and struggles to make a profit (*please see section 8 for Blue Apron's financial analysis*) and retain customers.

4.0 Current Strategy

Blue Apron's current strategy is to target, acquire and retain as many new customers as possible by the effective use of its existing resources and activities through an efficient and coordinated supply chain while promoting healthier eating standards.

In an attempt to expand its customer base, Blue Apron invests heavily in content marketing (mostly on social media and email) and offline promotion — mainly radio, subway and TV advertisements in large cities. More than a third of the company's total operating expenses account for marketing expenses²³.

By focusing on sustainability and promoting better food standards, Blue Apron induces the current trend of environmentally-friendly movement. This is done through exclusive direct partnerships with organic farms to decrease food waste by eliminating middlemen in its supply chain (warehouses and grocery stores).

While Blue Apron is trying to acquire new customers, it has problems retaining the existing ones with customer base down 15% in 2017 compared to the numbers in 2016, which constitutes a weak corporate strategy²⁴.

²³ Blue Apron Holdings Income Statement (annual)
<https://ycharts.com/financials/APRN/income_statement/annual>

²⁴ Blue Apron Holdings, Inc. 10-k Feb. 22, 2018 5:18 Pm
<<https://seekingalpha.com/filing/3899796>>

5.0 Porter's 5 Tests of Strategy

5.1 Distinctive Value Proposition

Blue Apron's value proposition uniqueness is compromised by a continuously growing number of emerging and existing competitors that offer virtually the same value proposition. As an example, a meal-kit company Purple Carrot targets only a segment²⁵ of the market (vegetarian only) which disturbs the distinction of the value proposition and makes it non-unique. The new recommended value proposition is introduced later in this paper (please see section 16.3 *Recommended Value Proposition*).

5.2 Tailored Value Chain.

The company lacks overall tailored value chain even despite the efficient logistics and technology departments. Blue Apron has excelled in managing its procurement, logistics, fulfillment and technology advancements and has implemented those activities within its value chain to distinct and support the value proposition. At this time, however, the company faces challenges in operations and marketing departments. Marketing costs have been cut significantly during the year 2017 to be able to actualize the facility movement to a new location and to account for other expenses.

Due to the company's founder CEO of 5 years stepping down at the beginning of December 2017²⁶, it seems like the Blue Apron's structure is going to change significantly which makes it hard to analyze their current stance on the company structure.

5.3 Trade-Offs Different From Rivals.

Blue Apron lacks any clear and distinct trade-off strategy. The company tries to target virtually *all* customer segments and deliver to every customer of any age and income ("... [Blue Apron aims] to fit the lifestyles of a broader customer set in order to continue to expand our addressable market and drive greater satisfaction among current customers...")²⁷. This means that the company is unable to perform trade-offs different from its rivals, making the strategy unsustainable.

5.4 Fit Across The Value Chain.

²⁵ POWER, DELIVERED.

<https://www.purplecarrot.com/>

²⁶ Blue Apron's Problems Are Too Big for Any CEO

<https://www.bloomberg.com/gadfly/articles/2017-12-01/blue-apron-s-new-ceo-can-t-solve-its-problems>

²⁷ FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 Blue Apron Holdings, Inc. -- <https://www.sec.gov/Archives/edgar/data/1701114/000104746917003765/a2232259zs-1.htm>

Activities currently performed within the company's value chain show little to no fit. The only area where the company is able to create strategic fit is within its supply chain related activities and creation of unique home-cooking experience activities. These are the areas that are best tailored to support Blue Apron's value proposition and where the activities performed reinforce each other.

5.5 Continuity Over Time.

Blue Apron's current strategy proves itself to be an untenable business model. It is unable to battle the unstable financial and economic situation within the company and also unable to resist the increasing competition in the industry. The strategy is unresponsive to external factors affecting the company such as market shifts, and also internal factors like razor-thin margins and income losses — thus lacking any sustainability and long-term orientation.

To conclude the analysis of Blue Apron's current strategy, it is evident that their business model needs to be restructured and reorganized in such a way that it meets the Porter's 5 Tests of strategy for creating sustainable competitive advantage.

5.6 Business Model Conclusion

Blue Apron's business model is built primarily with focus on supply chain and distribution activities. The company performs supply-related activities in an efficient way which creates fit in the company's activity system. However, its poor marketing execution, ambiguous target market and high operating costs make it hard for the company to develop competitive advantage. This refers to the strategic question: *in 2017, despite reporting steady revenue numbers, Blue Apron is faced with a number of challenges: stock prices falling 70% from the IPO earlier that year along with a 15% decline in customer growth due in part to rapidly growing competition. What strategy should Blue Apron undertake in order to regain and sustain its competitive advantage?*

6.0 Financial Analysis

The following information sets forth the consolidated financial statement data of Blue Apron Holdings, Inc. including its subsidiaries. *All of the financial data was taken from the company 10-K Report filed on February 22, 2018 (Please see Appendix for Consolidated Financial Statements)*²⁸.

	Year Ended December 31,		
	2017	2016	2015
Net revenue	\$ 881,191	\$ 795,416	\$ 340,803

6.1 Net revenue (in thousands) for years ended 2017, 2016 and 2015

Above are the net revenue figures accounting for the last 3 years of the company's operations. The revenue increased by \$85.8 million to ~\$881 million in 2017, which is an 11% increase from the year ended 2016. The numbers are not only stable or consistent, but are also seeing a positive upward trend.

Such an increase in revenue was seen mainly due to increase in orders during the year 2017 supported by an additional marketing activity implemented in the 1Q 2017. This measure was taken because of a cut back in marketing expenses during the final quarter of 2016 due to the new fulfillment center launch.

6.1.1 Net income (loss) statement (in thousands) for years ended 2017, 2016 and 2015

	Year Ended December 31,		
	2017	2016	2015
Net income (loss)	\$ (210,143)	\$ (54,886)	\$ (46,965)
Other comprehensive income (loss)			
Unrealized loss on investments	—	—	—
Reclassification of losses included in Net income (loss), net of tax of \$0	—	—	10
Comprehensive income (loss)	\$ (210,143)	\$ (54,886)	\$ (46,955)

The company has had a history of losses and has never been profitable, as can be seen in the above table. Comprehensive income loss increased by approximately 250% in just one year since 2016, mostly due to an increase of orders and servicing the new operations fulfillment center in Linden, NJ.

In 2017, net loss represents 23.8% of revenue. This shows that a company, though big on sales, cannot cover all of the cost it incurs which means that its business model is not viable. The

²⁸ Blue Apron Holdings, Inc. 10-k Feb. 22, 2018 5:18 Pm
<<https://seekingalpha.com/filing/3899796>>

company says that it plans to break even by the year 2019²⁹. If no significant changes are implemented in Blue Apron's business model, this goal is unfeasible.

6.1.2 Net income loss from operations (in thousands) for year ended 2017

It is also important to assess the percentile breakdown structure of Blue Apron's income loss. The below figure shows that income loss from operations amounts to \$188.8 million, which

Income (loss) from operations	(188,760)
-------------------------------	-----------

constitute almost 22% of net revenue and 86% of net income loss.

These numbers suggest that Blue Apron's economic condition is at risk. Due to costly procurement, logistics and supply activities, the company is not able to make profit.

6.2 Profitability Analysis

Below figures correspond to Blue Apron's profit and gross profit margins in terms of revenue, respectively³⁰.

Profit Margin (Quarterly)	-20.85%
	APRN
Gross Profit Margin (Quarterly)	29.94%

The company's quarterly profit margin is negative, which means the company is not solvent and that it is losing money. Blue Apron's revenue cannot account for its expenses. This figure shows a potentially threatening financial condition for the company.

Gross profit margin is almost at 30%, which is a solid number that could lead to profit generation if not for other operating expenses. Such difference in profit and gross profit margins exists because the company's marketing and product expenses are way too high (a combined 64% of all operating expenses).

6.3. Customer numbers (in thousands) for years ended 2017, 2016

²⁹ Blue Apron Puts Ebitda Breakeven on Table For Late 2018, Meredith Mazzilli - <https://www.reuters.com/article/us-blue-apron-hldg-results/blue-apron-puts-ebitda-breakeven-on-table-for-late-2018-idUSKBN1FX1GH>

³⁰ Blue Apron Holdings Gross Profit Margin (quarterly): https://ycharts.com/companies/APRN/gross_profit_margin

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
2017				
Customers (in thousands)	1,036	943	856	746
2016				
Customers (in thousands)	649	766	907	879

The numbers above show Blue Apron's customer count for each quarter of the years 2016 and 2017. In 2017, the number of customers accounted for 746 000, which is 15% less than in 2016. This is a worrisome trend for the company taking into account an increased number of competitors.

6.3.1 Revenue Per Customer

Below are the revenue per customer numbers for each quarter of the last three years.

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
2017				
Average Revenue per Customer	\$ 236	\$ 251	\$ 245	\$ 248
2016				
Average Revenue per Customer	\$ 265	\$ 264	\$ 227	\$ 246
2015				
Average Revenue per Customer	\$ 228	\$ 242	\$ 247	\$ 272

Average revenue per customer numbers are influenced primarily by average order value and average frequency of orders. The numbers, although subject to slight fluctuations, were stable over years and the company has earned \$3 more in the the 4Q 2017 in comparison with the same quarter in 2016. The digits show a promising sign of potential for the company to become profitable if it can efficiently account for its expenses and increase revenue.

6.4 Stock Performance

Blue Apron filed for IPO on June 29th, 2017 with an offer price of \$10 per share. The stock price started to decline rapidly almost right away and was fluctuating heavily, but continuously downward.

At the moment, Blue Apron trades at \$3.10 per share and is considered highly volatile



and a risky investment. The company's market cap was \$444 million at the IPO.

Figure 5. The visual shows Blue Apron's stock price performance over its course of existence. The chart shows poor stock performance, as the price today is more than 70% lower than their initial price. This can also be a reflection of the company's management and strategic issues. Source: YCharts, 2018.

To this moment, the stock price has fallen 70% from its initial IPO price, which relates to one of the key points in the Strategic Question posed, which was formulated as follows: *In 2017, despite reporting steady revenue numbers, Blue Apron is faced with a number of challenges: stock prices falling 70% from the IPO earlier that year along with a 15% decline in customer growth due in part to rapidly growing competition. What strategy should Blue Apron undertake in order to regain and sustain its competitive advantage?*

Such sharp decline in stock price was caused by a number of external and internal factors. First, increased competition from larger competitors such as Amazon and Walmart; and smaller and more segmented companies like Hello Fresh or Plated threatened Blue Apron's market position. Investors are skeptical of the company's unstable market position. Second, analysts conclude that the lack of moat³¹ for the company constitutes a potentially weakening financial condition and consider the stock to be volatile.

Analysts' review of Blue Apron's Stock

The visualisations below represent the analysts' take on Blue Apron's stock. At the moment, the majority of the analysts recommend to hold on to Blue Apron's stocks or yet wait to buy, while some suggest it might be a good time to buy some shares while the price is down.

³¹ Why Blue Apron Holdings Inc Stock Continues to Starve Investors | InvestorPlace <<https://investorplace.com/2017/12/blue-apron-aprn-stock-starve-investors/#.WpHmsmaZNE4>>

For comparison: Hellofresh, a Germany-based meal-kit company offering similar service, has opened market trading on Frankfurt Stock Exchange in November 2017 with an offer price of €10. At this moment the stock is valued at €12³²; the market cap at IPO was €1.7 billion — 3 times more than that of Blue Apron's.



Figures 6 and 7. The visualisations represent the analysts' opinion on Blue Apron's stock performance and volatility. Analysts suggest that it is early to make decisions to either purchase or sell the stock, thus their advice is to hold for the moment. The investment is considered risky. Source: SeekingAlpha

However, the stock performance for FYE 2017 beat analysts expectations. It is estimated that Blue Apron will start to be able to earn money for its shareholders, however the next 2-4 years the returns are still looking to be negative.

6.4.1 Earnings per share

Basic EPS (Annual)	2017-12	2016-12
EPS Basic from Continuing Operations	-1.640	-0.3600
Normalized Basic EPS	-1.640	-0.3600
EPS Basic	-1.640	-0.3600

As can be seen in the chart above, Blue Apron generates negative returns on its shares. At this moment, there are 30.04 million shares outstanding³³. Negative earnings per share generally constitute poor company performance. It means that the company is unable to deliver dividends to the owners of their stock. However, if Blue Apron implements a successful corporate strategy and starts to make profit (which is pivotal for positive EPS), it can quickly turn negative returns into dividends for its shareholders.

³² Hellofresh Ipo Surpasses Blue Apron Valuation
 Pymnts -< <https://www.pymnts.com/news/delivery/2017/hellofresh-ipo-surpasses-blue-apron-valuation/>>

³³ Blue Apron Holdings Income Statement (quarterly)
https://ycharts.com/financials/APRN/income_statement/quarterly

6.5 Financial Analysis Conclusion

The above analysis shows that Blue Apron is unable to make any profit or break even on its expenses even despite the revenue numbers being rather consistent. Blue Apron is quickly losing customers in the face of emerging competition while it is greatly investing its marketing expenses.

The company's IPO was not off to a good start with the news of Amazon's Whole Foods acquisition and patent filing for meal kit distribution emerging just before the trading opened. Since then the stock price fell more than 70% off the offer price and keeps fluctuating due to extreme volatility. All of the points above constitute poor corporate strategy and thus lack of financial and economic stability. If the conditions do not change in the foreseeable future, Blue Apron may soon go deeper in debt or file for bankruptcy because it is impossible to operate on constant losses.

7.0 External Analysis

7.1 Industry Overview

Meal kit industry is considered a part of food or food delivery industry and is currently valued at \$5 billion in the US (for comparison: the US overall food and beverage market is worth \$1.6 trillion). It is a rather young industry that has been around in the US since 2012. The market is now overcrowded with competitors — in the past few years more than 150 companies entered the US meal kit market (reasons for such a high number of entries are market growth and low barriers to entry)³⁴. During the first 3-4 years of the industry existence meal kits were highly popular among customers due to the service novelty. Industry revenue is expected to grow to \$10 billion by 2020 from \$1 billion in 2015³⁵. Now when people are already familiar with the service it is getting a lot harder for companies to offer something that customers will want to be purchasing regularly.

Because meal kits were intended to bridge the gap between ordinary home cooking and takeout, meal kit delivery was initially seen as a viable alternative to traditional ways of getting food. Its market growth can be attributed to a number of factors concerning customer's needs and wants: premeasured and predetermined portion sizes, convenience of home delivery and unique cooking experience³⁶. As of 2016, three-quarters of US adults have heard of meal-kit services and over a quarter of adults have gotten at least a free trial meal (in other words, one in four US adults purchased a meal kit).³⁷

Market segmentation in the meal kit industry is impressive. The market offers meal kits that are suitable for paleo, vegan and gluten-free diets, weight-loss options, meals for diabetics, baby food meals, regional specialties and even pet meal kits³⁸.

Companies in the industry operate on extremely thin margins and struggle to make profit or even break even on their expenses. Factors for that include the following: high consumer

³⁴ Why A Shakeout IN Meal Kit Industry Is Likely Executive Insights <https://www.lek.com/sites/default/files/insights/pdf-attachments/1948_Shakeout_Meal_Kit_Industry_LEK_Executive_Insights_v2.pdf>

³⁵ The Meal Kit Delivery Services Market
<<https://www.packedfacts.com/Content/Featured-Markets/Meal-Kit-Delivery-Services>>

³⁶ Why A Shakeout IN Meal Kit Industry Is Likely Executive Insights <https://www.lek.com/sites/default/files/insights/pdf-attachments/1948_Shakeout_Meal_Kit_Industry_LEK_Executive_Insights_v2.pdf>

³⁷ Meal Kit Market Delivers Sles of \$5 Billion-- and Disrupts Industry
<https://www.bizjournals.com/prnewswire/press_releases/2017/07/17/DC41980>

³⁸ Why A Shakeout IN Meal Kit Industry Is Likely Executive Insights <https://www.lek.com/sites/default/files/insights/pdf-attachments/1948_Shakeout_Meal_Kit_Industry_LEK_Executive_Insights_v2.pdf>

acquisition and retention costs, operations know-how, excessive packaging costs, high labor and last-mile delivery costs³⁹.

8.0 Competitive Environment

8.1 Key Competitors

At the moment Blue Apron is the company with the largest market share in the industry that delivers around 8 million meals each month⁴⁰. However, competitive environment in the US meal kit industry has gotten much more intense just in the last nine months⁴¹.

There are many companies that offer similar service and are usually small in size and niche-oriented. For example, Purple Carrot only offers vegetarian, “performance” meal-kits endorsed by athletes, Gobble sells kits that can be prepared in under 10 minutes and Sun Basket packs up gluten-free, paleo and keto boxes⁴². Plated is another New York-based meal-kit company which was acquired by a grocery retail chain Albertsons in September 2017 to introduce meal kits into their physical stores.

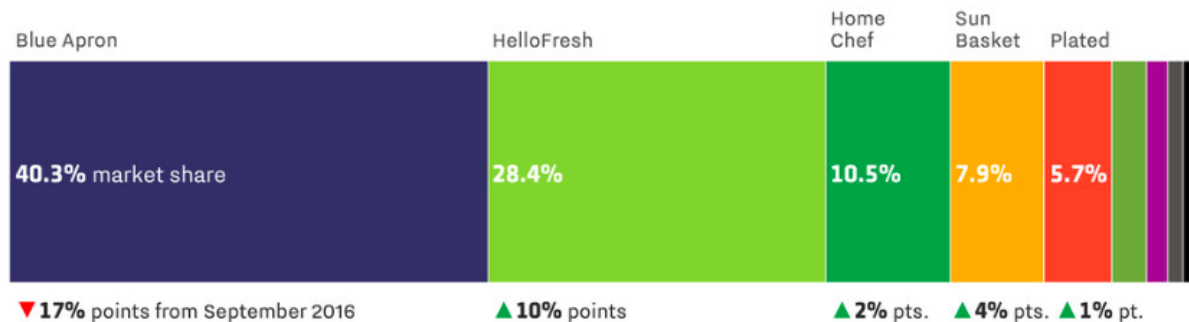


Figure 8. The chart shows the market share breakdown of the meal-kit industry as of September 2017. In just one year, Blue Apron's market share fell 17 percentage points. This reflects Blue Apron's unstable position in the market. Source: Second Measure, 2017

It is possible to identify three key competitors for Blue Apron. The biggest threat in terms of direct competition is posed by multi-billion corporations like Amazon and Walmart that had

³⁹ Why A Shakeout IN Meal Kit Industry Is Likely Executive Insights <https://www.lek.com/sites/default/files/insights/pdf-attachments/1948_Shakeout_Meal_Kit_Industry_LEK_Executive_Insights_v2.pdf>

⁴⁰ Here's How Much Blue Apron Generated in Sales in 2016
<http://fortune.com/2017/04/11/blue-apron-sales/>

⁴¹ Blue Apron's Biggest Challenge Is Getting Worse
<https://finance.yahoo.com/news/blue-apron-apos-biggest-challenge-183200166.html>

⁴² The Winner Of the Meal Kit Market Won't Be a Meal Kit Company At All, Lora Kolodny
<<https://techcrunch.com/2017/04/16/the-winner-of-the-meal-kit-market-wont-be-a-meal-kit-company-at-all/>>

entered the market in 2017 and have an immense existing customer base. *It is important to note that both Amazon and Walmart operate in a variety of other industry sectors and that meal kit industry is not their primary operating market sector.* In terms of direct competition, HelloFresh is slowly expanding its customer base and eating up Blue Apron's market share.

8.1.1 Amazon

Amazon, the world's largest online retailer, had recently acquired Whole Foods Market — a retail store chain specializing in healthy and organic food options. It had quickly established its own food retailing network by introducing Whole Foods' grocery delivery to certain areas in the US through Prime membership. The company had then experimented with AmazonFresh online food retailing and is now selling meal kits widely both online and in its recently opened convenience store in Seattle⁴³, priced at \$9.94 per serving. Amazon's meal kits come in a variety of cuisine choices and are available with Amazon Fresh subscription with an additional cost of \$14.99 per month excluding shipping⁴⁴. Kits are shipped to the customer either with same-day or next-day delivery. Amazon with its worldwide online retail legacy competes against Blue Apron by offering very similar service through its extensive distribution network. Amazon's existing customers (including people that used have used any Amazon service before) are more prone to purchase such services from them rather than from Blue Apron, thus it is far easier for Amazon to acquire and keep clients.

8.1.2 Walmart

Another large Blue Apron's competitor is Walmart — a multinational retail chain operating over 5 300 stores in the US. Beginning of 2018 Walmart announced that it brings meal kits to its stores, and right now customers can purchase prep meals at 250 Walmart locations across the US. The company also plans to expand its meal kit production to sell at 2 000 of its store locations.

Walmart meal kits are made daily in stores and constitute less exotic and ingredient-savvy recipes which may appeal to a broader customer range. Kits can be purchased at a price between \$8 and \$15 per serving. Customers may also purchase their meal kits online through Walmart website and have them delivered to the door.

⁴³ Dinner To Go: Walmart To Expand Meal Kits To More Stores | Reading Eagle - Ap
Written Press - <http://www.readingeagle.com/apps/pbcs.dll/article?AID=%2F20180305%2FAP%2F303059228>

⁴⁴ About Amazonfresh
https://www.amazon.com/gp/help/customer/display.html/ref=hp_13819211_primefresh?nodeId=201338210

8.1.3 HelloFresh

Hello Fresh is a Berlin-based company that is operating mainly in the US and that specializes in meal kits. Blue Apron and Hello Fresh are direct rivals because both companies only offer meal-kit services and are not large retail corporations like Walmart and Amazon. Their meal prices are slightly higher than Blue Apron's — at \$11.50 per person per meal for a 2-person plan and \$10.75 per person per meal for a four-person plan⁴⁵. Hello Fresh operates in 10 countries and has had a valuation of \$1.7 billion at their IPO in November 2017⁴⁶ (for comparison: the whole US meal kit industry is valued at \$5 billion⁴⁷). Hello Fresh is popular with the customers because it offers a variety of recipe choices — for example, clients can customize their meals to be nut-free, egg-free, vegan and so on, which is an uncommon feature for meal-kit delivery companies. The company also offers full nutritional information for each meal and provides easy-to-follow instructions. Hello Fresh is quickly moving ahead in the market; the company officials had claimed that they expect the company to start generating profit by the end of the 4Q 2018⁴⁸.

8.2 Competitive Analysis

All three of the aforementioned companies put Blue Apron's market position in jeopardy. Amazon has an advantage over Blue Apron in terms of customer acquisition and retention. Customers are more likely to purchase meal kits from Amazon because for them it is a secure and trusted enterprise (customer loyalty) and because the company offers convenient price conditions with its Prime membership. They also do not base their meal kit sales on subscription. Amazon is willing to lower prices on their meal kits to expand its market share within the industry which is a sign of a long-term competitive strategy which may be hard for Blue Apron to battle considering its poor economic and financial state.

Walmart is an iconic company and one of the biggest grocery retailers in the US. By producing and selling kits in-store Walmart increases their product awareness. Essentially each

⁴⁵ Food Wars: I Tried a Bunch Of Subscription Meal Services, and One Is Way Better Than the Others
Megan Willett - <http://www.businessinsider.com/blue-apron-plated-hello-fresh-difference-2015-4>

⁴⁶ Subscribe To the Ft To Read: Financial Times Hellofresh Seeks Valuation Of Up To €1.5bn in Ipo
<https://www.ft.com/content/4a6dd393-90e5-30b9-8b3d-59f0d5fb051e>

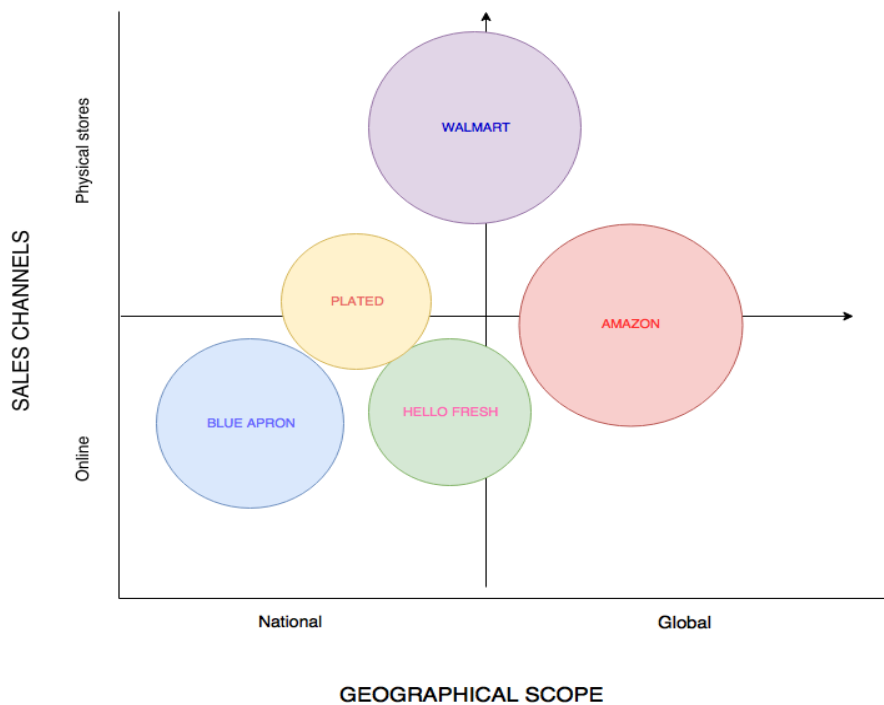
⁴⁷ United States Meal Kits Delivery Services Market 2017 - A \$5 Billion Opportunity
Research Markets - <https://www.prnewswire.com/news-releases/united-states-meal-kits-delivery-services-market-2017---a-5-billion-opportunity-300492806.html>

⁴⁸ Amid Stumbles By Key Competitor, Hellofresh Finds Winning Us Strategy
Erika Kincaid - <https://www.fooddive.com/news/grocery--amid-stumbles-by-key-competitor-hellofresh-finds-winning-us-strategy/515983/>

Walmart store will serve as an advertisement that will target a broader customer range — like less tech-savvy people and people over 50 years old (only 12% of the meal kit customers are 50+; refer to figure 12). The company has an advantage over Blue Apron in terms of service distribution channels (physical store locations) and target customer numbers which means more people will be aware of the product thus more chances for purchase.

HelloFresh has eaten up a lot of Blue Apron’s market share last year when Blue Apron cut back on marketing activities due to increased operating expenses⁴⁹. This is also in part due to customers enjoying the company’s greater and more flexible recipe options, less cooking time and less packaging waste. Interestingly, 8% of Blue Apron’s customers are subscribed to Hello Fresh services at the same time⁵⁰. If Blue Apron does not execute efficient marketing activities to target the customers who have switched to Hello Fresh and new customers, HelloFresh may continue to expand its market share leaving Blue Apron behind.

8.3 Strategic Group Map



⁴⁹ How Blue Apron Plans To Juice Its Gross Margin- http://host.madison.com/business/investment/markets-and-stocks/how-blue-apron-plans-to-juice-its-gross-margin/article_8b8a9b1f-4d44-542e-80f6-55e02a933ba3.html

⁵⁰ Topic: Online Meal Kit Delivery Services in the U.S.
Eric Duncan - <https://www.statista.com/topics/3336/online-meal-kit-delivery-services-in-the-us/>

Figure 9. Estimated Strategic Group Map for Blue Apron's industry competitors. The big players like Walmart and Amazon are posing a big threat by their vast customer network and greatly developed distribution channels. The circle sizes represent the overall size of the company compared to each other. Author: Arina Tokoryan, 2018.

Blue Apron's strategic group consists of four competitors: Walmart, Amazon, Plated and Hello Fresh. The rivals were assessed based on two factors: geographical market segmentation and sales distribution channels.

Blue Apron shows limited geographical market segmentation as it only operates in the US although plans to expand globally. The company has one single sales distribution channel — its official website. Plated distributes its meal kits online as well as in its parent company Albertson's physical stores. As of now, the company only operates within the US. Hello Fresh is a Germany-based company which operates in the US as well as in some countries in Europe. The company's only sales distribution channel is an online website. Walmart is a global grocery retailer offering meal-kits in-store. Amazon is a ecommerce retail giant that operates worldwide. It sells meal-kits mostly online but offers them in its convenience brick-and-mortar store in Seattle.

Blue Apron loses to most its competitors based on two factors assessed. Its US-only geographical scope combined with a single sales distribution channel may result in Blue Apron losing its market share. Though it would not make sense for Blue Apron to expand to international markets until it fixes its corporate problems, the company has to consider obtaining an additional distribution channel to be able to stay up to par with its competitors.

9.0 Porter's 5 Forces.

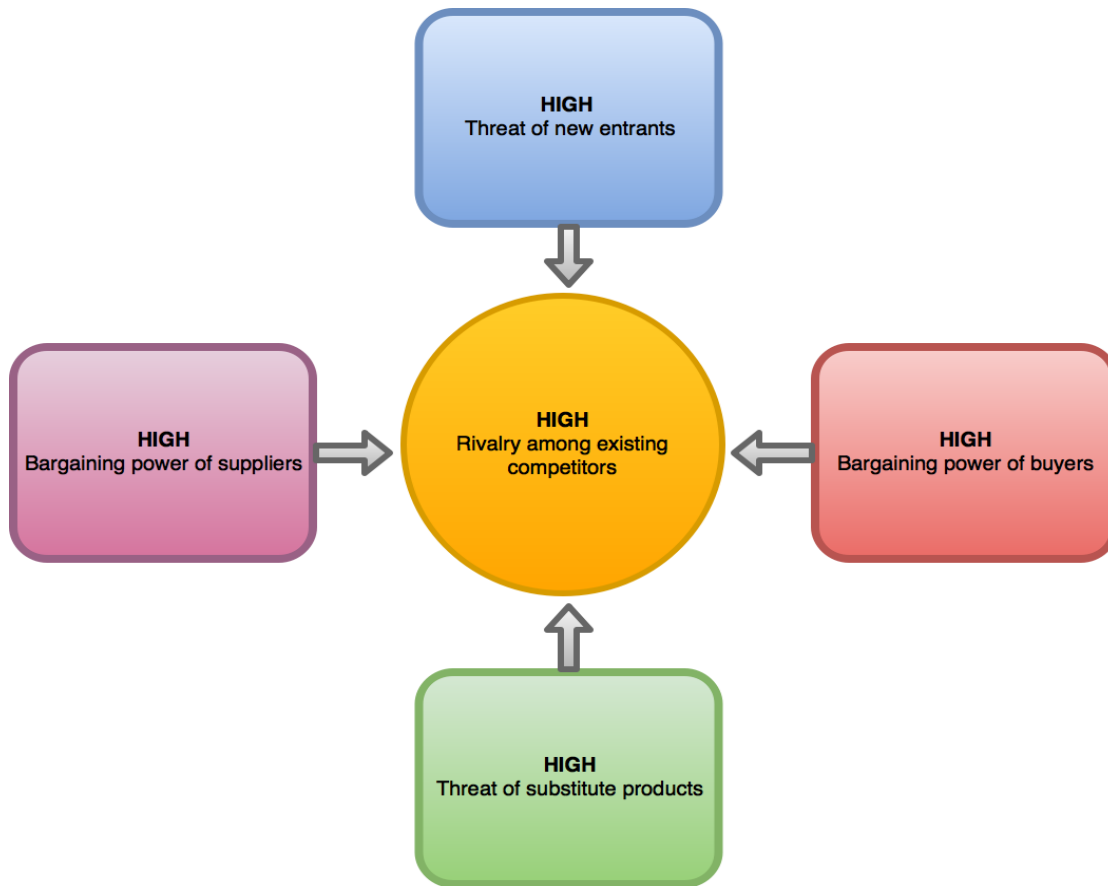


Figure 10. Blue Apron's business model canvas portrays the 5 forces strongly affecting the company. Author: Arina Tokoryan, 2018.

9.1. Bargaining Power of Buyers

Bargaining power of buyers is high for the meal-kit industry. Meal kit companies depend heavily on customer retention numbers as meal kit sales are the only primary revenue stream for most of the companies. Customers' switching costs are extremely low and they can easily switch to the next company providing same service and offering lower prices because most meal kit consumers are price sensitive. Thus, delivering to the customer's wants and needs within the concept of meal kit service is the number one priority for any company operating in the industry. Therefore, buyers have high bargaining power in terms of consumer loyalty and retention.

9.2 Bargaining Power of Suppliers

Supplier's bargaining power is high for the meal-kit industry. Most companies within the sector rely on exclusive contractual relationships with their food suppliers — local and international farmers and purveyors. Contractual exclusivity assumes that if a farmer has partnered with one meal-kit company it does not have the right to supply any other meal-kit company. Many businesses in the industry base their recipe crafting around scarce and exotic ingredients — some of them hard to find within the local supply chain. This means that each exclusive supplier is an important partner for the company because it is their first step to an effective supply chain network. Thus, suppliers may command a higher price knowing that a meal-kit company would agree to the terms just to meet the product demand.

9.3. Threat of New Entrants

Barriers to entry into the meal kit delivery service industry are low⁵¹ which results in the threat of new entrants being high. It takes minimal investment to launch a startup platform between the food supplier and the end consumer — thus the increased and only growing competition within the industry. The service is considered to be a part of food industry and is not subject to many government regulations which further eases up the entry. Additionally, the sector is attractive for new entrants due to higher revenue numbers. Threat of new entrants is another strong force affecting the industry.

9.4. Threat of Substitution

Threat of substitution for the meal-kit industry is high. Companies within the industry position their service as substitute for grocery shopping, ordering in and dining out. It is possible to argue that 'traditional' ways of getting food pose a major threat for the meal kit industry. Realistically speaking, it is nearly impossible for meal kits to completely substitute for grocery shopping or going out to eat, so substitution would be a constant threat for the industry.

9.5 Rivalry Among Existing Competitors

Rivalry among existing competitors is high for the meal-kit sector. For such a young industry, competition got extremely strong over a short period of time especially with retail giants Amazon and Walmart entering the market in 2017. The market is now overcrowded with companies targeting all customer segments and occupying any possible market niche. Rivals try

⁵¹ More Food Delivery Apps To Bite the Dust, Anita Balakrishnan - <https://www.cnbc.com/2016/03/18/some-food-delivery-app-starved-for-funding.html>

to compete on consumer taste preferences, company branding and appealing price points. This is why fierce competition is the strongest force affecting the industry at the moment.

9.6 Porter's 5 Forces Analysis Conclusion

Taking into consideration the above analysis it is now possible to conclude that competition in the meal-kit industry is very intense and will only be growing stronger. Higher buyers' and suppliers' bargaining power create limitations for meal-kit businesses in terms of operating capacity due to the companies' heavy dependence on both. Lower barriers to entry and attractive revenue numbers affect the industry players by posing a high threat of new entrants that could jeopardize any company's economic stability. Additionally, constant threat of substitution strongly affects the industry, because meal kits may never substitute for traditional ways of purchasing and cooking food. Growing competition and already intense competitive rivalry result in the industry being unattractive, due to the aforementioned forces reducing the industry profitability. This is because in such industry conditions it would be extremely hard to develop competitive advantage and to not compete on price alone.

10.0 Critical Success Factors

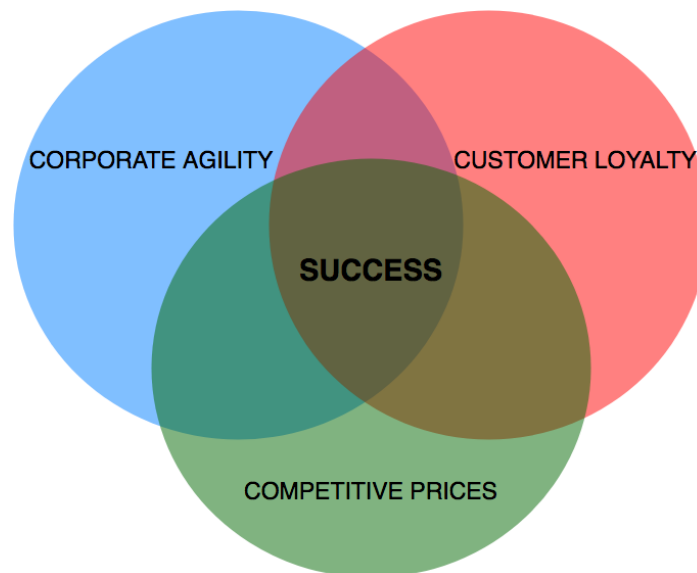


Figure 11. Blue Apron's Critical Success Factors. The company has to develop customer loyalty, improve corporate agility and maintain competitive prices in order to gain competitive advantage. Source: Arina Tokoryan, 2018

There are a number of critical success factors that Blue Apron must consider in order to be able to successfully compete (refer to the above chart for a visual representation of the critical success factors).

First critical success factor is competitive price points. Blue Apron has to be able to either offer lower prices than those of competitors, or differentiate itself based on service uniqueness. Since meal kit delivery is an easily imitated service it can be challenging to differentiate the service based on uniqueness due to a large number of companies offering identical service. This is why Blue Apron needs to continuously scan the rivals' average price points and operating margins and be able to offer comparable or lower prices in order to stay competitive.

Second critical success factor for Blue Apron is corporate management agility. The company must be able to quickly identify newly emerging shifts in consumer tastes and preferences and to further adjust its product offer accordingly. It can be done through continuous scan of the environment and market research. Market shifts in consumer spending or taste preferences are a great opportunity for the company to expand its customer base and to deliver to the customer's needs. However, if not seized in time, this opportunity can result in a major threat for Blue Apron because customers may easily switch to another company.

Third critical success factor for the company is developing strong customer loyalty. It is especially important now when the company has to compete against retail moguls like Amazon and Walmart. At the moment, Blue Apron's biggest strategic issue is that the company is unable to retain its existing clients. A great chunk of operating expenses of the company go towards marketing operations, and though able to acquire clients, Blue Apron struggles to keep them happy. According to a study, only 29%⁵² of clients are still subscribed to the service one year after the initial sign up. Thus, it is critical for the company to be able to effectively acquire and, most importantly, retain its customer base to stay afloat.

11.0 Core Competencies

Blue Apron possesses strengths that help the company better run the business, however those may not qualify as core competencies in an intensely competitive meal-kit industry. These

⁵² Amazon and Blue Apron: Why Meal Kits Haven't Changes Cooking
<<http://time.com/4863064/amazon-meal-kits-blue-apron-cooking/>>

strengths include: a well-established brand and high customer awareness, efficient end-to-end value chain and exceptional food quality. Virtually every company competing in the industry possesses the same set of qualities, which is why they can not be considered core competencies.

Blue Apron needs to develop the following core competencies to develop competitive advantage: *strategic customer target, strong offline and online market presence and product offer variety.*

11.1 Critical Success Factors And Core Competencies Conclusion

The company's critical success factors were found to be as follows: industry low prices, management agility and customer loyalty. Blue Apron does not possess any core competencies needed to battle the intense competition in the industry which may include more segmented customer targeting, expansion into physical distribution channels and product variety. If the company is able to develop the aforementioned competencies and follow through with its critical success factors then it may develop a competitive advantage over its rivals.

12.0 SWOT Analysis

Strengths	Weaknesses
<ol style="list-style-type: none"> 1. Well-established brand and high customer awareness 2. Highly efficient end-to-end value chain 3. Exceptional food quality at reasonable prices 	<ol style="list-style-type: none"> 1. Financial loss due to poor corporate management 2. Unclear customer target market 3. Low customer retention 4. Poor customer service
Opportunities	Threats
<ol style="list-style-type: none"> 1. Enlarge customer base through product segmentation 2. Grow revenue by diversifying the product portfolio 3. Strategic partnership or alliance with a food retailer 4. Promote emotional connection to the brand by providing a unique experience 	<ol style="list-style-type: none"> 1. Intense and continuously growing competition 2. Shift in consumer taste or preference 3. Looming industry shakeout

12.1 Strengths

1. *Well-established brand and high customer awareness* (see section *Company Brief History in the Appendix*)

This is a strength for Blue Apron because it is the most widely recognized meal-kit service company in the US and is currently the market leader in the industry. The company has been establishing powerful connections with customer by gifting them a unique cooking experience. This is why the word of mouth for Blue Apron has been strong and brand recognition and customer awareness are the company's strengths.

2. *Highly efficient end-to-end value chain* (see section 3 *Blue Apron's Business Model*)

This is a strength because Blue Apron's smooth business operations depend heavily on supply and distribution network efficiency. The company had designed its value chain in such a way that the customer is sure to get fresh ingredients on time and at lower prices. All of the

company's supply chain activities reinforce one another to create an effective end-to-end value chain.

*3. Exceptional food quality at reasonable prices (see section *Organizational Structure & Management in the Appendix*)*

This is a strength because Blue Apron is dedicated to provide its customers with only the best quality food, seasonal and local produce and sustainable meat and poultry. All of the food sourced by Blue Apron is produced by organic farmers and purveyors around the world⁵³. The company implements a special quality control system within its production centers whereby each incoming food item is carefully inspected by quality control supervisors to ensure that the product quality matches their standards. Blue Apron prices are lower compared to a number of its competitors, or at least equal. To compare, HelloFresh offers \$8.75-\$9.99 meals, Home Chef's meals are usually priced at \$9.99 while Blue Apron prices at \$8.74-\$9.99. HelloFresh and Blue Apron offer free delivery, but Home Chef charges for shipping.

12.2 Weaknesses

1. Financial loss due to poor corporate management (see section 6.0. Financial Analysis)

This is a weakness because Blue Apron sees financial loss due to poor corporate management decisions and is reporting income losses as well as showing weak gross profit followed by negative profit margins. Gross profit margin fell 4% since last year to 28.7%⁵⁴. The company spent millions on servicing the launch of its new fulfillment centers in New Jersey having to cut back on operating costs and struggles to break even on its expenses. Blue Apron is unable to make profit and operates on income loss. The management is making decision to invest heavily in marketing, however it is not producing positive results.

*2. Unclear customer target market (see section *Markets in the Appendix*)*

This is a weakness because Blue Apron's tries to appeal to all customer segments and to all income brackets thus not tailoring its value proposition. Marketing research shows that a lot of customers find the service too expensive (refer to Figure 1). Additionally, Blue Apron only offers a limited selection of weekly recipes which some customers may not find suitable (like vegans or people who suffer from food allergies). Blue Apron has to conduct a thorough

⁵³ Blue Apron: Fresh Ingredients, Original Recipes, Delivered to You
<<http://www.blueapron.com>>

⁵⁴ How Blue Apron Plans To Juice Its Gross Margin- http://host.madison.com/business/investment/markets-and-stocks/how-blue-apron-plans-to-juice-its-gross-margin/article_8b8a9b1f-4d44-542e-80f6-55e02a933ba3.html

marketing research to appeal to a typical Blue Apron customer, otherwise all of the marketing efforts are inefficient.

3. *Low customer retention* (see section 2.3 *Customer Retention*)

This is a weakness because low customer retention results in higher customer churn rate for Blue Apron. Blue Apron has difficulties with customer loyalty — as previously mentioned in the paper, only 29% of customers are still around after the initial sign up. L.E.K Analysis survey shows that most common reasons for canceling subscription is price and taste, followed by inconvenient meal plan options (see Figure 1)⁵⁵. Competitors in the industry try to woo the customers by offering constant promotions, sales and discounts, which means that the customer may easily switch to another company offering a better deal. This is because if some customers find the service to be too expensive or simply unsuitable for them they can easily go with another supplier.

4. *Poor customer service* (see section *Poor Customer Service in the Appendix*)

Poor customer service is a major weakness for Blue Apron as the company does not focus enough on customer satisfaction and experience which results in customers unsubscribing from the service. According to the reviews, customers complain that the food in the boxes comes spoiled or is of bad quality. When contacting the customer service representatives, clients say that they are not helpful and often refuse to refund the money. Many customers claim that the cancelation process is inconvenient and the company charges the card even when a customer has opted out.

12.3 *Opportunities*

1. *Enlarge customer base through product segmentation* (see section 9.4 *Threat of Substitution*)

Blue Apron may choose to expand its service offer within the meal-kit industry by product segmentation. Right now, Blue Apron's product offer is not segmented and aims to appeal to a broad customer range. Choosing to narrow down and strategically segment the product offer may lead to customers perceiving the service as unique which may result in customer base expansion.

2. *Grow revenue by diversifying the product portfolio* (see section *Markets in the Appendix*)

⁵⁵ Why A Shakeout IN Meal Kit Industry Is Likely Executive Insights <https://www.lek.com/sites/default/files/insights/pdf-attachments/1948_Shakeout_Meal_Kit_Industry_LEK_Executive_Insights_v2.pdf>

Blue Apron offers a very limited selection of weekly recipes and limited capacity to customize its meal kits. The company should put effort into diversifying its product line by offering a larger recipe selection base and a variety of add-on products. Customers should also be able to customize their meals according to their taste. This will appeal to existing customers and strengthen the connection the brand and will attract new customers because of a wider product selection, thus shipping more boxes and generating more revenue. In addition, the company might consider offering breakfast, lunch and snack options as opposed to offering only dinner menus.

3. Strategic partnership or alliance with a food retailer (see section 8.2 Competitive Analysis)

Strategic alliance with another company operating in the food segment might be a viable opportunity for Blue Apron to both expand its operations beyond the online subscription service and increase its customer base. Blue Apron might want to consider partnering with brick and mortar grocery retailers so that it can sell its meal kits through an offline distribution channel. Additionally, it can partner with a variety of restaurants targeting different customer segments or fast food chains to increase brand awareness and expand the product range.

4. Promote emotional connection to the brand by providing a unique experience (see section 5.1 Distinctive Value Proposition)

Besides being a convenient service, Blue Apron can increase customer loyalty and strengthen customer emotional connection to the brand by providing a unique cooking experience. Blue Apron can create an educational aspect to their meal recipes, teaching customers about various cooking styles and methods, ingredients and how they are sourced and receive tips and potentially feedback from professional chefs.

12.4 Threats

1. Increasingly growing competition (see section 2.3 Customer Retention)

This is a threat because competition has gotten extremely high in the last year with major players like Amazon and Walmart stepping into the meal-kit industry while smaller and more segmented companies occupy every possible niche within the market sector. Considering Blue Apron's weak financial state and thinning customer numbers, intense rivalry is the most serious threat that may put the company's very existence in jeopardy. Blue Apron may lose its leading market position and give in its market share to competitors with better corporate strategies.

2. Shift in consumer taste or preference (see section 7.1 Industry Overview)

This is a threat because food industry trends are subject to constant changes which are out of the companies' control span. Consumer shift in food purchasing is a threat for Blue Apron, because the company may lose a significant amount of customers due to taste changes.

3. *Looming industry shakeout* (see section 7.1 *Industry Overview*)

This is a threat because it is not possible to predict what the future of the meal-kit industry is and whether the market will be a solid addition to the ways of purchasing food or it will fade away as just another trendy service. At the moment the industry is overly saturated and crowded with too many competitors offering the same service with slight fluctuations in target market. This creates an industry bubble that is likely to explode soon which may lead to many companies' industry exit. This is a threat for Blue Apron because the company may not be viable to sustain the industry bubble.

12.5 SWOT Analysis Conclusion

SWOT Analysis for Blue Apron has shown that the company possesses a number of strengths which include: well-established brand and high customer awareness, highly effective value chain and exceptional food quality at compelling prices. The company's weaknesses are: poor corporate management, unclear target market, low customer retention and poor customer service. Blue Apron needs to consider the following external opportunities: market segmentation, product line diversification, strategic partnerships and distinct customer experience. External threats include: increasingly growing competition, shift in consumer taste or preference and looming industry shakeout. Blue Apron must consider the aforementioned points in order to carve a new corporate strategy.

13.0 TOWS Matrix

	Strengths	Weaknesses
Opportunities	<p>1. Well-established brand and high customer awareness</p> <p>2. Highly efficient end-to-end value chain</p> <p>3. Exceptional food quality at reasonable prices</p>	<p>1. Financial loss due to poor corporate management</p> <p>2. Unclear target market</p> <p>3. Low subscriber retention</p> <p>4. Poor customer service</p>
<p>1. Enlarge customer base through market expansion</p> <p>2. Grow revenue by diversifying the product line</p> <p>3. Strategic partnership or alliance with a food retailer</p> <p>4. Promote emotional connection to the brand through providing a unique customer experience</p>	<p><i>1 (S), 2(S), 3(S) + 1(O), 2(O)</i></p> <p>Promote customer acquisition and stabilize revenue by introducing a variety of meal plan options made more affordable and suitable for different dietary restrictions.</p> <p><i>1 (S), 2(S) + 1(O), 3(O)</i></p> <p>Increase customer awareness and boost sales through partnership with a retail grocery store chain present in most urban areas to distribute the boxes in-store.</p>	<p><i>3(W), 4(W) + 4(O)</i></p> <p>Strengthen customer loyalty and boost customer satisfaction by positioning Blue Apron as a lifestyle brand and educational platform for cooking enthusiasts rather than just a convenient alternative dining option.</p>
Threats	<p><i>1(S), 3(S) + 2(T), 3(T)</i></p> <p>Minimize possible financial losses incurred in case of the industry shakeout or shift in customer dining preference by aiding in the additional products and services the company offers that have potential for margin increase — i.e., Blue Apron Wine & Shop.</p>	<p><i>1(T) + 1(W)</i></p> <p>Lower the price points as well as the overall operational costs by eliminating the concept of “exclusivity” in the food sourced thus lowering the bargaining power of suppliers.</p> <p><i>1(T), 3(T) + 2(W)</i></p> <p>Increase market share by acquiring a competitive meal kit company.</p>

13.1 Strategic Alternatives

1 (S), 2(S), 3(S) + 1(O), 2(O)

Promote customer acquisition and stabilize revenue by introducing a variety of meal plan options made more affordable and suitable for different dietary restrictions.

It is suggested that Blue Apron creates a number of meal plan options suitable for different food preferences, dietary restrictions, as well as more affordable plans (since the number one reason for subscription cancelation is price). At the moment Blue Apron offers very limited meal plan options and poor recipe choice variety which is another popular reason for customer dissatisfaction and customers canceling the subscription. Their recipes are not suitable for vegan, keto or paleo diets, gluten or lactose intolerant people, pescetarians, people watching their weight, etc. Also, Blue Apron offers only dinner options that require lengthy cooking time — around 50-60 minutes average.

These changes can help Blue Apron target customer much more efficiently and will bring about new customers who were not able to cook with Blue Apron earlier because of dietary restrictions. A wide variety of meal plan options will appeal to a customer and thus will boost sales.

Note: in March 2018 Blue Apron's spokeswoman announced that they were considering selling their kits in stores. No detailed information has been given on the issue yet.⁵⁶

1 (S), 2(S) + 1(O), 3(O)

Increase customer awareness and boost sales through a strategic partnership with a retail grocery store chain present in most urban areas to distribute the boxes in-store.

A single distribution channel (website only) is a major weakness for Blue Apron and is an opportunity to bring a lot of potential market for the company. Its well-established brand will help Blue Apron to partner with a large retail grocery chain to sell its meal-kits in brick-and-mortar stores thus adding another distribution channel and expanding the target market. An efficient value chain with a vast new fulfillment center will handle the increased number of boxes that will have to be produced. It is also suggested that Blue Apron redesigns its packaging to make the boxes more compact and use less plastic for selling in-store. That way when

⁵⁶ "Blue Apron Is Planning to Sell Meal Kits in Stores." Fortune.Com, 15 Mar. 2018, p. 1. EBSCOhost, search.ebscohost.com/login.aspx?direct=true&db=bsu&AN=128507942&site=bsi-live.

customers see the box on the aisle stand, the smaller and more compact box design will look more appealing to them rather than a large bulky box.

By starting to sell the meal-kits in physical stores Blue Apron will be able to target and potentially acquire new customer segments like less tech-savvy people, people who prefer traditional ways of shopping for food, or simply people who have not been familiar with the concept of meal kits. This will promote impulse buying and because of the lack of subscription commitment will attract new customers. This strategy also aims to battle competitors who are already selling the kits in stores more efficiently (Walmart, Plated, Amazon).

3(W), 4(W) + 4(O)

Strengthen customer loyalty and boost customer satisfaction by positioning Blue Apron as a lifestyle brand and educational platform for cooking enthusiasts rather than just a convenient alternative dining option.

Blue Apron can better the retention numbers by investing in strengthening customer loyalty and customer service by repositioning itself in the market and promoting the service not simply as an alternative dining option, but rather as an exciting and unique cooking experience that would foster customer's emotional connection to the brand. This can be done through the creation of a lifestyle brand/loyalty program, whereby the mobile application and web hub platform are launched through which customers can choose and customize their recipes, get exclusive insights on the recipes they pick, learn some top-tier chef secrets and share their own cooking creations made with Blue Apron while being able to connect with other meal kit enthusiasts.

It is suggested that customers would receive benefits and enjoy exclusive promotions based on their involvement in the program. The benefits may include dollars off the next meal kit purchase, feature of the customer's cooking creation on the website or free goods from Blue Apron Wine or their pantry shop. This can increase customer loyalty and satisfaction.

The mobile application and web hub platforms should have an option to link the customers' social media accounts to their account on the platform. That way there are more chances that customers would share their experience with Blue Apron on their social media platforms. This would promote customer awareness through active social media presence.

Because of the poor reviews on Blue Apron's customer service, the mobile and web hub should also have an option that would allow customers to instant message a customer service representative to quickly receive feedback and resolve any issue. This can increase customer service satisfaction and therefore increase customer retention.

14.0 Current Strategy Restated

Blue Apron's current strategy is to *target, acquire and retain as many new customers as possible by the effective use of its existing resources and activities through an efficient and coordinated supply chain while promoting healthier eating standards.*

The company's current strategy had proven itself to be ineffective and unprofitable.

15.0 Strategic Question Restated

The analysis conducted so far in the paper aims to answer the following strategic question: *in 2017, despite reporting steady revenue numbers, Blue Apron is faced with a number of challenges: stock prices falling 70% from the IPO earlier that year along with a 15% decline in customer growth due in part to rapidly growing competition. What strategy should Blue Apron undertake in order to regain and sustain its competitive advantage?*

16.0 Recommended Strategy

The recommended strategy to help Blue Apron regain its competitive advantage is as follows: *to initially partner with a retail grocery chain to sell the kits in-store while expanding the product portfolio to introduce a greater variety of meal options.*

The new strategy is crafted specifically to answer the strategic question and can help Blue Apron to regain its competitive advantage in a highly contentious market. This is achieved by introducing a new distribution channel and expanding the product line. An additional distribution channel will help Blue Apron to target and reach new customer groups and will thus aid in sales while increasing brand awareness. With the increase in revenue and customer influx, the company's stock is bound to grow stronger and be considered less volatile due to Blue Apron's improved position in the market.

Because Blue Apron is popular mostly in urban areas of the country, it is suggested that Blue Apron enters into a contractual relationship either with one nationwide retail grocer to sell

its kits online for the percentage of sales or to partner with a number of grocery chains typical for the areas. Blue Apron is headquartered in New York City and it could first start selling its meal kit boxes in the city's high-end grocery chain like Kroger's. Convenient urban location of supermarkets gives the company an advantage over, for example, rural Walmart stores (where they sell their kits).

As part of the product portfolio expansion and in an attempt to target new customer segments, Blue Apron can create exclusive plans for specific target groups. An example is a lower-priced line for students with easy-and-quick-to-prepare meals and less sophisticated ingredients. New meal plan options should include lunch, breakfast and snack meals available for purchase altogether or separately. It is suggested that Blue Apron lets customers have more flexibility with recipe choice based on dietary restrictions and preferences. At least half of the recipes Blue Apron offers should also be altered in such a way that they take less time to prepare.

16.1 Revised Mission and Vision

Revised Mission

Blue Apron's revised mission is: *to help and inspire all to be incredible cooks at their own home.*

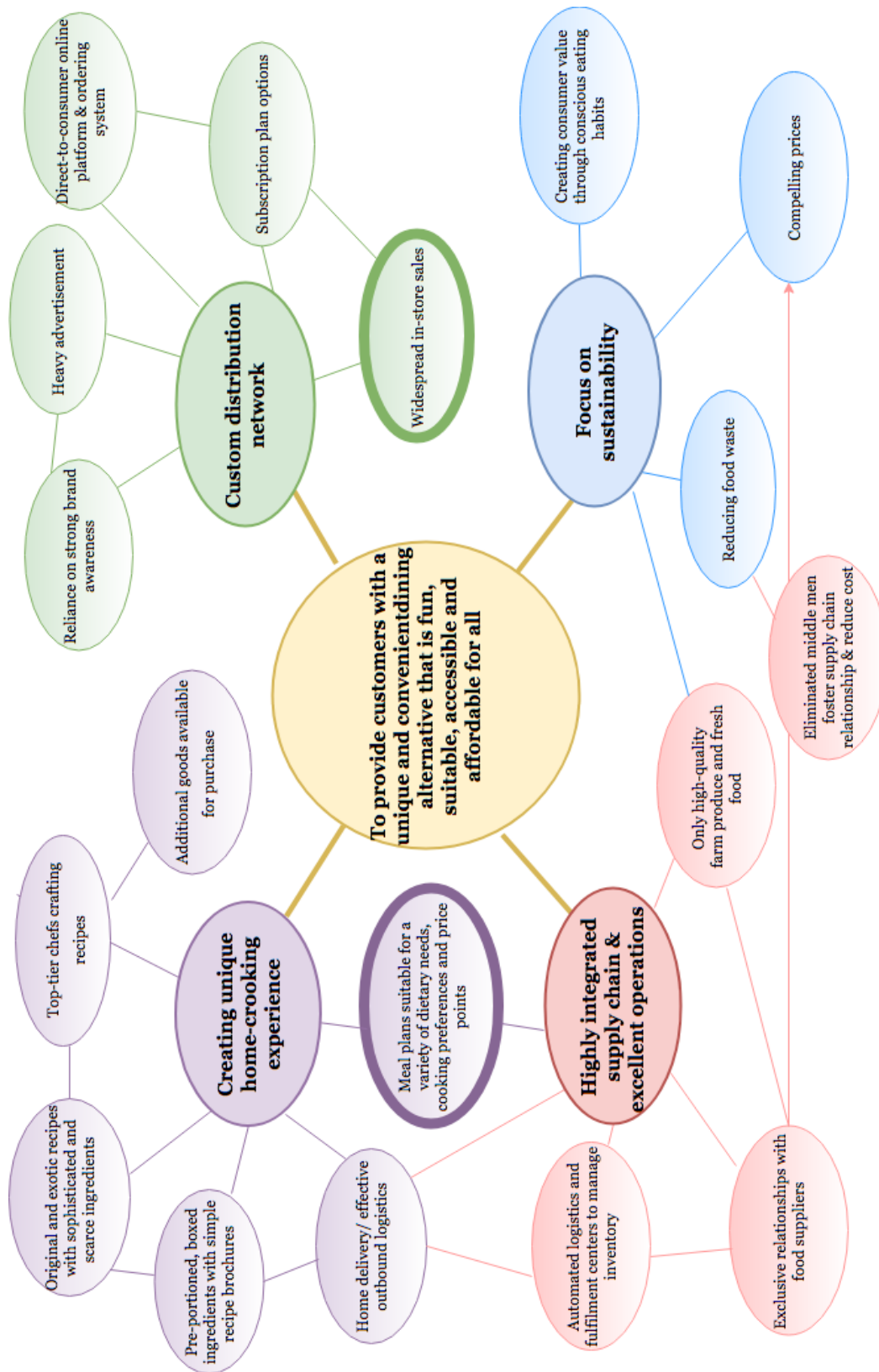
The revised mission statement reflects Blue Apron's new recommended strategic approach as well as their core company values. It indicates the concept of convenience and accessibility ("to help") as well as an educational concept ("to inspire"). This mission clearly targets a broad customer segment, which is Blue Apron's aim. It also states the company's way of delivering to their mission ("at their own home").

Revised Vision

Blue Apron's revised vision statement is: *to forever transform the home-cooking experience and to become the leading meal kit service provider.*

The revised vision statement reflects Blue Apron's new recommended strategy as well as their corporate values. It shows the company's positive future outlook on its success and the number one position in the industry and its ambitious plan to change the way people prepare meals forever.

16.2 Suggested Activity Systems Map



The suggested activity map for Blue Apron implements two new activities and a new value proposition that directly correlate with the recommended strategy. The new activities are: *meal plans suitable for a variety of dietary needs, cooking preferences and price points* and *widespread in-store sales*. The new value proposition is: *to provide customers with a unique and convenient dining alternative that is fun, suitable, accessible and affordable for all* and is tailored to reflect the new recommended strategy. Both new activities are circled with bolder color on the map and support the main activities.

First new activity *meal plans suitable for a variety of dietary needs, cooking preferences and price points* is critical for the effective implementation of the new recommended strategy and is supporting *Creating unique home-cooking experience activity* as well as *Highly integrated supply chain & operations activity* thus strengthening the value chain. *Widespread in-store sales activity* supports the *Custom distribution network activity* and makes it stronger by allowing for an additional sales distribution channel.

Strategic fit has not changed with the implementation of the new activities and remains to be part of the integrated supply chain activity. This only means that the company has to invest in strengthening its main activities, especially *Custom distribution network* and *Creating unique home-cooking experience*, as these are pivotal for the successful strategy execution.

16.3 Recommended Value Proposition

The proposed new value proposition is: *to provide customers with a unique and convenient dining alternative that is fun, suitable, accessible and affordable for all*. This value proposition is tailored to reflect the new recommended strategy.

The value proposition constitutes all the major benefits that customers expect from cooking with Blue Apron (a unique experience, convenience, accessibility and compelling prices) while incorporating the new strategic adjustment whereby the company will offer meals that are suitable for a variety of dietary needs and also sell the kit boxes in stores which can be more preferable for a lot of customers.

17.0 Porter's 5 Tests Comparison

Distinctive Value Proposition

The new value proposition passes the Porter's test. Blue Apron's new value proposition is as follows: *to provide customers with a unique and convenient dining alternative that is fun, suitable, accessible and affordable for all*. The value proposition is altered from the initial one to reflect the company's new strategic approach and is more catered to provide to the customers' needs, wants and desires rather than focus too much on environmental issues.

Tailored Value Chain

The new strategy does not pass the Porter's test. Even after implementing the new strategic alternatives, Blue Apron's value chain is still not completely tailored to support the value proposition and needs further refinement. It is suggested that the company focuses less on sustainability issues and builds up on the rest of the main activities.

Trade-Offs Different from Rivals

The new strategy passes the Porter's test. By expanding its product portfolio *and* creating an additional distribution channel Blue Apron differentiates itself from competitors who have either done one or the other.

Strategic Fit

The new strategy does not pass the Porter's test. The new activities implemented in the activity systems map did not create or further strengthen the existing weak strategic fit. In order for Blue Apron to create strategic fit within its value chain, it has to change the business model completely, including the main and supporting activities the company performs (especially *Focus on sustainability activity*).

Continuity Over Time

The new strategy passes the Porter's test. Because of creating an additional distribution channel through the partnership with an offline food retailer, the company has greater chances to keep sales high even if the online meal delivery industry slows down thus making the strategy long-term oriented.

18.0 Strategy Justification and Implementation

The recommended strategy serves to help Blue Apron to regain its competitive advantage amidst aggressive competition and a potential industry shakeout and directly addresses the strategic question: *in 2017, despite reporting steady revenue numbers, Blue Apron is faced with a number of challenges: stock prices falling 70% from the IPO earlier that year along with a 15% decline in customer growth due in part to rapidly growing competition. What strategy should Blue Apron undertake in order to regain and sustain its competitive advantage?*

The new strategy constitutes a high degree of corporate agility and directly responds to the current industry trends and with the efficient utilization of the company's existing strengths can aid Blue Apron in regaining its competitive advantage.

Risk

The new strategy does not create a lot of potential risk in terms of financial loss for the company (Blue Apron is already deeply in debt) because no great investment is needed to implement and optimize the new strategy. Partnership with food retail businesses is done by cutting off the percentage of meal-kit sales in-store. An existing highly efficient value chain with automated fulfillment centers and dozens of farmer partners and chefs will assist in expanding the product portfolio and crafting new recipes suitable for different dietary needs.

The only risk that the company is exposed to is losing its brand image. If the in-store sales do not happen to have success among the customers, Blue Apron's brand image may lower in the eyes of the customers who are already exposed to countless negative reviews and newsflashes regarding the company's poor performance.

Practicality

The strategy can be implemented without disturbing Blue Apron's usual operating activities. To start selling in stores, Blue Apron will need to become a vendor for one of the urban supermarkets (Kroger's, i.e.) through a mutually beneficial strategic partnership whereby the supermarket receives a set percentage of all Blue Apron kits purchased in-store. This will require minimal to no financial effort from Blue Apron.

Product portfolio expansion will require Blue Apron to perform a thorough market research. This research will help Blue Apron to select and introduce the recipes, meals and create product lines according to the customers' needs and wants. Because Blue Apron has a great

capacity for fulfilling a vast number of orders, creating an additional product line will be fairly easy.

Financial Feasibility

This strategy was crafted taking into account Blue Apron's poor financial state and thus does not require any major investments. The company can utilize its existing supply chain relationship to keep sourcing products also for the new products that are coming up.

Strategic partnership with a grocery chain does not imply any form of investment from Blue Apron because the company is willing to give up a percentage of in-store sales (suggested 15-20%). A grocery chain will be willing to seal the deal because it is beneficial for the retailer as well (for example, customers may come only for the kits due to Blue Apron's strong brand awareness but will end up buying additional goods).

Stakeholders' Impact

Due to the low degree of risk for the company and minimal financial investment, no stakeholders will be adversely affected by the changes in the corporate strategy.

Customers will benefit from the expanded product portfolio and the accessible new offline distribution channel. Potential increase in sales and revenue will help Blue Apron's corporate management to bring the company back on its feet. Because the new strategy reflects the current industry trends and strategically positions Blue Apron to be able to compete with its main rivals, investors and shareholders will see the company as more stable and less volatile, hence will be open to trade or invest in its stock.

19.0 Final Conclusion

The new recommended strategy was based on two strategic alternatives and constitutes the following: *to initially partner with a retail grocery chain to sell the kits in-store while expanding the product portfolio to introduce a greater variety of meal options.* The recommended strategy was designed to answer the following strategic question: *in 2017, despite reporting steady revenue numbers, Blue Apron is faced with a number of challenges: stock prices falling 70% from the IPO earlier that year along with a 15% decline in customer growth due in part to rapidly growing competition. What strategy should Blue Apron undertake in order to regain and sustain its competitive advantage?*

Two new activities relating to the recommended strategy were plotted into the suggested activity map: *meal plans suitable for a variety of dietary needs, cooking preferences and price points and widespread in-store sales.* The new recommended value proposition is as follows: *to provide customers with a unique and convenient dining alternative that is fun, suitable, accessible and affordable for all.*

Porter's analysis of strategy has shown that the recommended strategy passes the distinctive value proposition test, trade-offs different from rivals test and continuity over time test. Compared to the current Blue Apron's strategy which only passes one Porter's test, the new strategy is set to produce better results.

The new strategy directly addresses the strategic question and is crafted to be more agile and responsive to current industry trends which can set Blue Apron apart from its competitors. The strategy does not bear a high degree of risk and requires minimal financial investment. No stakeholders can be adversely affected by the new strategy.

Appendix

Company Brief History

Blue Apron is a meal subscription company with headquarters in New York City that was established in 2012 by three cooking enthusiasts: Matt Salzberg (former CEO; now chairman of the board of directors), Ilia Papas (now acting CTO) and Matt Wadiak (now acting COO). Salzberg stepped down from its CEO duties for Bradley Dickerson to assume the position early December 2017. They are the meal-kit delivery service inventors who had carved out this very niche within the food delivery industry.

Co-founders always had a passion for cooking exotic and unusual recipes but found the process of grocery shopping too tiring, time-consuming and expensive for an average American. This is how the idea of boxing the already prepared and measured fresh ingredients and sending them to households across the United States was born. The trio started their production in a small, rented apartment in New York City where they began to prepare and box their first meal-kits and shipping them out. The startup quickly became popular within the working community in NYC and by actively promoting pictures of cooked meals through social media (mainly Instagram) the company was able to expand their business into a company that is now valued at \$2 billion⁵⁷.

Organizational Structure & Management

Blue Apron's organizational structure is built primarily around its production and fulfillment activities and its management to ensure their smooth and effortless execution. Blue Apron operates 3 fulfillment centers across the US with its latest fulfillment center in Linden, New Jersey being launched in late 2017. Linden fulfillment center integrates special automated production and inventory control technologies that increase the quality of production, reduce production time and cost of servicing the fulfillment center. Essentially, all of Blue Apron's main production and operations is happening in fulfillment centers — employees receive batches of food weekly according to the week's menu guide, quality control them, then carefully package each ingredient and finally put the into a box ready for shipment.⁵⁸ Time efficiency is one of the key factors in the meal kit industry to ensure product freshness and no spoilage of perishable

⁵⁷ How 3 Guys Created Blue Apron, a \$2 Billion Recipe-delivery Business with 2,500 Employees, in 36 Months
Alyson Shontell - <http://www.businessinsider.com/blue-apron-founder-story-sai-100-2015-10>

⁵⁸ FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 Blue Apron Holdings, Inc. --
<<https://www.sec.gov/Archives/edgar/data/1701114/000104746917003765/a2232259zs-1.htm>>

items, thus the implementation of automated technologies and a large amount of employee base. As of January 31, 2018 Blue Apron employs 3 9338 full-time workers with more than 85% of the workforce being engaged in fulfillment operations⁵⁹.

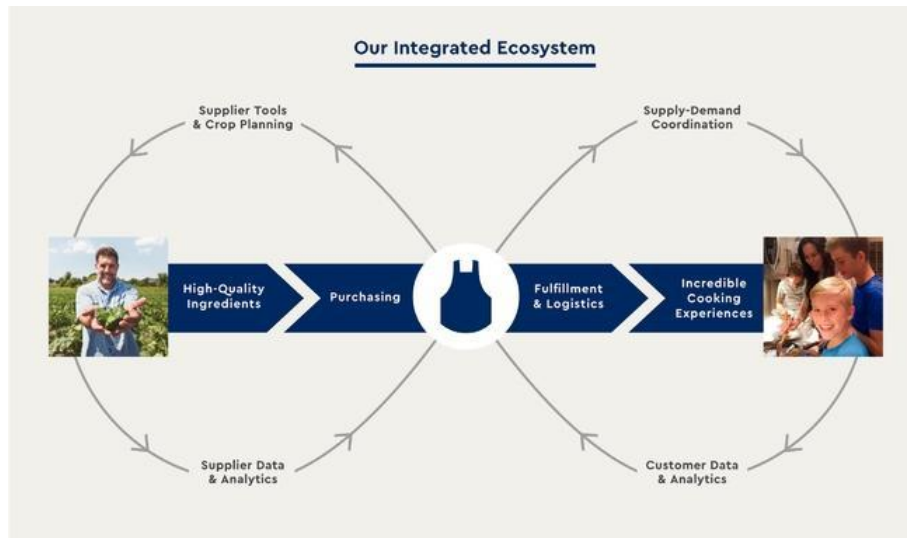


Figure 12. Blue Apron's business model visual as portrayed by the company. Source: www.blueapron.com

End-to-end value chain operations are the core of the company's structure. Blue Apron invests heavily in its supply network and logistics operations as part of their unique business model whereby the timely delivery of fresh and organic ingredients is key. Logistics activities are being outsourced from major companies like FedEx and UPS and other local regional companies like LaserShip.

As part of their strategy Blue Apron has to partner with suppliers of organic food in order to create a trusted and exclusive contractual bond between the two parties. This is a critical activity that a company builds its strategy around (see Figure 11 for a visualisation of the company's business flow).

Company Values

Blue Apron prides itself on being a company whose mission is to revolutionize the way people get, cook and eat food. Its core values constitute benefit for the customer and the planet.

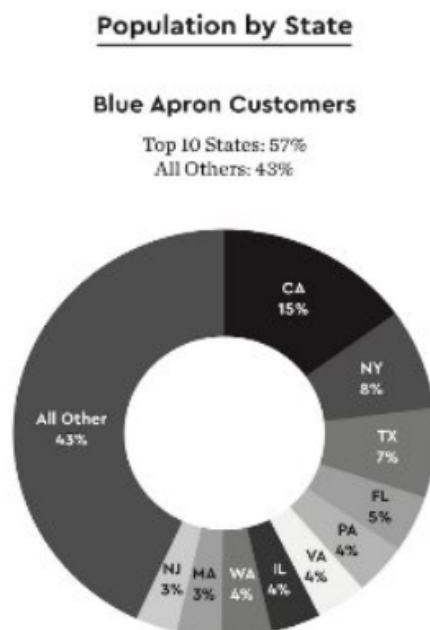
⁵⁹ Late and Lacking: Blue Apron Expands Aggressively but Struggles To Deliver
<http://coveringcompanies.journalism.cuny.edu/2017/12/08/late-and-lacking-blue-apron-expands-aggressively-but-struggles-to-deliver/>

Customers value comes from Blue Apron providing them with a convenient service with quality experience at compelling prices (lower compared to grocery store shopping for same ingredients).

Blue Apron promotes sustainability through implementing “agricultural practices that reduce atmospheric carbon, [induce] the use of fewer agricultural inputs such as pesticides and fertilizers, and improve land management.”⁶⁰ Additionally, the company only sources meat and poultry that has not been treated with antibiotics and that has no added hormones. Blue Apron also promotes reducing waste because it supplies only the exact amount of each ingredient needed to cook one meal. This leads to less food getting thrown away.

Markets

Blue Apron operates exclusively in the US but has announced plans for potential international expansion⁶¹. Its main market is situated around urban areas in the top 10 states (please see Figure 13). Rural areas show less demand for the service due to untimely delivery.



⁶⁰ FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 Blue Apron Holdings, Inc. -- <https://www.sec.gov/Archives/edgar/data/1701114/000104746917003765/a2232259zs-1.htm>

⁶¹ FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 Blue Apron Holdings, Inc. -- <https://www.sec.gov/Archives/edgar/data/1701114/000104746917003765/a2232259zs-1.htm>

Figure 13. Blue Apron's customer distribution by state. Source: Blue Apron official S-1 filing.

Products And Services

Blue Apron sources, packs and delivers all of the necessary pre-measured ingredients in a refrigerated box for cooking up a meal at home. Meals offered are crafted exclusively by a number of top-tier chefs and are based around exotic ingredients which customers would not normally find in their local supermarket. Recipe cards with instruction pictures also come with the box. Delivery window is from 8am to 8pm local time and covers almost all of the zip codes



across the 50 states.

Figure 14. A typical Blue Apron meal kit box. Source: www.blueapron.com

It is a subscription service that sends customers kit boxes automatically after the initial sign up and up until subscription cancellation. A customer may choose delivery frequency and may 'skip' up to 5 weeks of meal delivery, meaning that Blue Apron will not send them meals for up to 5 weeks without canceling the service. Blue Apron offers two subscription plans — two-person plan that costs \$9.99 per meal per person and \$8.74 per meal per person for its four-person family plan⁶². Customers can choose from a narrow selection of weekly updated recipes and opt-out of some ingredients they would not want to receive with their meal.

In April 2018 Blue Apron's spokeswoman said that they were considering selling their kits in retail stores. No detailed information has been given on the issue yet.

⁶² Blue Apron: Fresh Ingredients, Original Recipes, Delivered to You
<<http://www.blueapron.com>>

Blue Apron also sells products of its subsidiaries — Blue Apron Market (kitchen supplies), Blue Apron Wine (selected wines) and BN Ranch (sustainable meat and poultry). The main product service for the company remains to be its meal box subscription.

Poor Customer Service

Countless negative reviews on various consumer feedback platforms suggest that customers are dissatisfied with their Blue Apron experience. Customers mainly complain about the inconvenient way to cancel the subscription whereby a customer has to first email the cancellation department and then wait for a follow-up email with a manual opt-out instruction. Meanwhile waiting for further instructions customers would still get charged the subscription service.

Another popular complaint is that despite a canceled subscription customers would still receive boxes months after they had cancelled the service, and be billed for that. Former Blue Apron customer Anastasia shared her experience: “[Blue Apron] charged my card after I cancelled my account. When I called to request a refund they refused and said they will ship an order[...] in 5 days.”⁶³

Some customers claim that the food they receive with the boxes comes bad or spoiled and that the boxes aren’t delivered in the acceptable time frame. This might happen both due to poor corporate quality control or third party delivery company negligence. Stacy, one of the unsatisfied Blue Apron customers, complains: “I ordered Blue Apron and not only did they deliver a sloppy packaged product, everything was melted and not useable. In addition, [Blue Apron] delivered at least 8 hours outside of the promised delivery window.”⁶⁴

⁶³Blue Apron

Susan -Jennifer Marion-Marie -Brian -Riccardo -Tom -Aleesa -Kelley -Cliff -Vicki -Peter -Fred Collins-Cathy -Paul -Stacy -Lisa -Mike -Jeff Ramon-Claire -Richard Austin-Thomas Hampton-Adrienne - <https://www.consumeraffairs.com/food/blue-apron.htm>

⁶⁴Blue Apron

Susan -Jennifer Marion-Marie -Brian -Riccardo -Tom -Aleesa -Kelley -Cliff -Vicki -Peter -Fred Collins-Cathy -Paul -Stacy -Lisa -Mike -Jeff Ramon-Claire -Richard Austin-Thomas Hampton-Adrienne - <https://www.consumeraffairs.com/food/blue-apron.htm>

Value Proposition Canvas

Product

Benefits

- Time saved on grocery shopping
- Sophisticated recipes made easy
- High quality products

Features

- Convenient to door delivery
- Boxes with measured organic & fresh ingredients
- Recipe brochures with images
- Simple order process

Experience

- Uniqueness of service
- 'Exclusive' aspect to meal-kits
- Sense of fulfilment after cooking

Substitutes

- Traditional grocery shopping
- Take-out restaurant ordering
- Dining out

Customer

Wants

- Save time on grocery shopping and cooking
- Spend more quality time home with family
- Higher quality food
- Help the planet
- New experience
- Lower prices

Fears

- Prices too high
- Low quality food
- Lack of menu variety
- Inconvenient delivery

Needs

- Convenience
- Accessibility
- 'Luxury' experience
- Sense of accomplishment

Consolidated Income Statement

	Year Ended December 31,			
	2017	2016	2015	2014
(In thousands, except share and per-share numbers)				
Consolidated Statements of Operations Data:				
Net revenue	\$ 881,191	\$ 795,416	\$ 340,803	\$ 77,806
Operating expenses:				
Cost of goods sold, excluding depreciation and amortization	627,964	532,682	263,271	72,223
Marketing	154,529	144,141	51,362	13,960
Product, technology, general, and administrative	247,907	165,179	70,151	21,811
Depreciation and amortization	26,838	8,217	2,917	611
Other operating expense	12,713	—	—	—
Total operating expenses	1,069,951	850,219	387,701	108,605
Income (loss) from operations	(188,760)	(54,803)	(46,898)	(30,799)
Interest income (expense), net	(6,384)	25	(6)	(4)
Other income (expense), net	(14,984)	—	—	—
Income (loss) before income taxes	(210,128)	(54,778)	(46,904)	(30,803)
Benefit (provision) for income taxes	(15)	(108)	(61)	—
Net income (loss)	\$ (210,143)	\$ (54,886)	\$ (46,965)	\$ (30,803)
Net income (loss) per share attributable to Class A common, Class B common, and Class C capital stockholders:				
Basic	\$ (1.64)	\$ (0.84)	\$ (0.92)	\$ (0.88)
Diluted	\$ (1.64)	\$ (0.84)	\$ (0.92)	\$ (0.88)
Weighted-average shares used to compute net income (loss) per share attributable to Class A common, Class B common, and Class C capital stockholders:				
Basic	128,057,330	65,425,609	51,137,406	34,841,852
Diluted	128,057,330	65,425,609	51,137,406	34,841,852

Consolidated Balance Sheet

	December 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 228,514	\$ 81,468
Accounts receivable	1,945	485
Inventories, net	41,927	42,887
Prepaid expenses and other current assets	7,824	8,267
Other receivables	2,539	4,991
Total current assets	282,749	138,098
Restricted cash	2,371	3,966
Property and equipment, net	230,828	130,961
Other noncurrent assets	1,761	382
TOTAL ASSETS	\$ 517,709	\$ 273,407
LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	\$ 30,448	\$ 49,549
Accrued expenses and other current liabilities	32,615	40,911
Deferred revenue	27,646	24,278
Total current liabilities	90,709	114,738
Long-term debt	124,687	44,533
Facility financing obligation	70,347	49,809
Other noncurrent liabilities	8,116	2,858
TOTAL LIABILITIES	293,859	211,938
Commitments and contingencies (Note 9)		
Convertible preferred stock, par value of \$0.0001 per share — 10,000,000 and 17,371,402 shares authorized as of December 31, 2017 and December 31, 2016, respectively; 0 issued and outstanding as of December 31, 2017 and 14,500,938 issued and outstanding as of December 31, 2016; aggregate liquidation preference of \$0 as of December 31, 2017 and \$195,317 as of December 31, 2016	—	194,869
STOCKHOLDERS' EQUITY (DEFICIT):		
Class A common stock, par value of \$0.0001 per share — 1,500,000,000 and 177,000,000 shares authorized as of December 31, 2017 and December 31, 2016, respectively; 37,657,649 shares and 0 shares issued and outstanding as of December 31, 2017 and December 31, 2016, respectively	4	—
Class B common stock, par value of \$0.0001 per share — 175,000,000 shares authorized as of December 31, 2017 and December 31, 2016; 153,727,228 and 67,095,128 shares issued and outstanding as of December 31, 2017 and December 31, 2016, respectively	15	7
Class C common stock, par value of \$0.0001 per share — 500,000,000 and 2,000,000 shares authorized as of December 31, 2017 and December 31, 2016, respectively; 0 shares issued and outstanding as of December 31, 2017 and December 31, 2016	—	—
Additional paid-in capital	572,528	5,147
Accumulated deficit	(348,697)	(138,554)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	223,850	(133,400)
TOTAL LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 517,709	\$ 273,407

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