



EXECUTIVE INSIGHTS

Finding Success with Fresh Prepared Foods

Fresh prepared foods (FPF) were a large and high-growth market prior to the pandemic, with sales accelerating 7%-10% year over year for the past decade. The market benefited from increased consumer trials during COVID-19 as restaurants shut down, and demand has remained strong even now that foodservice operations have reopened.

Offering FPF is a way for retailers to compete with Amazon and other ecommerce players. A fresh, hot prepared meal keeps their store footprint relevant and drives traffic by creating a destination for consumers.

Consumers have discovered that FPF not only contribute to quick and easy meals, but also provide a chance to extend those meals beyond their cooking comfort zone. FPF options like sushi bars, stir-fry stations and grab-and-go pastas provide access to new cuisines. Premade items like ready-to-eat soups, side dishes and deli salads save time in the kitchen. This is particularly relevant for those working from home who are seeking a substitute for a restaurant or grab-and-go meal near the office for lunch.

Grocers have expressed commitment to additional investments in FPF, which will require producers to keep pace. But what does it take to succeed? Let's find out.

Focusing on Fresh Prepared Foods

L.E.K. Consulting has been monitoring the FPF landscape for over a decade. We published “Capitalizing on Opportunities in Fresh Prepared Foods”¹ in 2016 when the industry was accelerating. FPF have since become a primary focus for retailers and manufacturers alike.

A large and growing market

FPF comprise a variety of different products (see Figure 1). This market includes packaged ready-to-eat products, bulk ready-to-cook products like marinated meats or meal kits, and hot bar, deli and grab-and-go products.

Figure 1
Fresh prepared foods market overview

Home meal replacement	Home meal components	Home meal components (behind glass)	Deli meats & cheeses	Prepared meals & sandwiches to go	Refrigerated dips & spreads, puddings	Bakery
 Center plate packaged RTE	 RTE unpackaged hot meals (e.g., fried chicken & sides)	 Deli prepared sides	 Behind the glass	 RTE/RTC Hot Packaged Meals	 Deli & dairy dips	 Breads
 Sides — packaged RTE	 Rotisserie chickens	 RTC* and RTE* center plate (unpackaged components)	 Packaged deli	 Retail grocery sushi	 Specialty sauces & dressings	 Cakes & cupcakes
 Premium refrigerated soups (retail & foodservice)	 Premium soups (hot bar and foodservice)	 Prepared sides (unpackaged components)	 Packaged deli snacks	 Prepared packaged sandwiches	 Puddings	 Cookies & muffins

Example products (not exhaustive*)

*Key other categories include leafy greens/RTE salads, fresh cut fruit and vegetables, seafood and in-store meal kits (e.g., Home Chef in Kroger)

Note: RTE=ready-to-eat; RTC=ready-to-cook

Source: L.E.K. research and analysis

Retailers are investing in this section of the store as a differentiator. FPF are a great way for retailers to differentiate from other brick-and-mortar grocers and to defend against online players. While Amazon can deliver groceries to your door, it cannot provide a fresh, hot prepared meal that is ready to eat. Grab-and-go items are seeing particularly high demand — according to a recent study by Supermarket News, 66% of respondents suggested grab-and-go products are the best way to fight competition for prepared foods sales.²

Food retailer investments

Investments in FPF and in-store foodservice are cited as the most successful strategies retailers can execute (see Figure 2). According to an FMI study published by Grocery Dive, 75% of food retailers said they used product-differentiating strategies within FPF in 2021;³ now, more than a year later, 70% of those that implemented such a strategy responded that the efforts were a significant success.

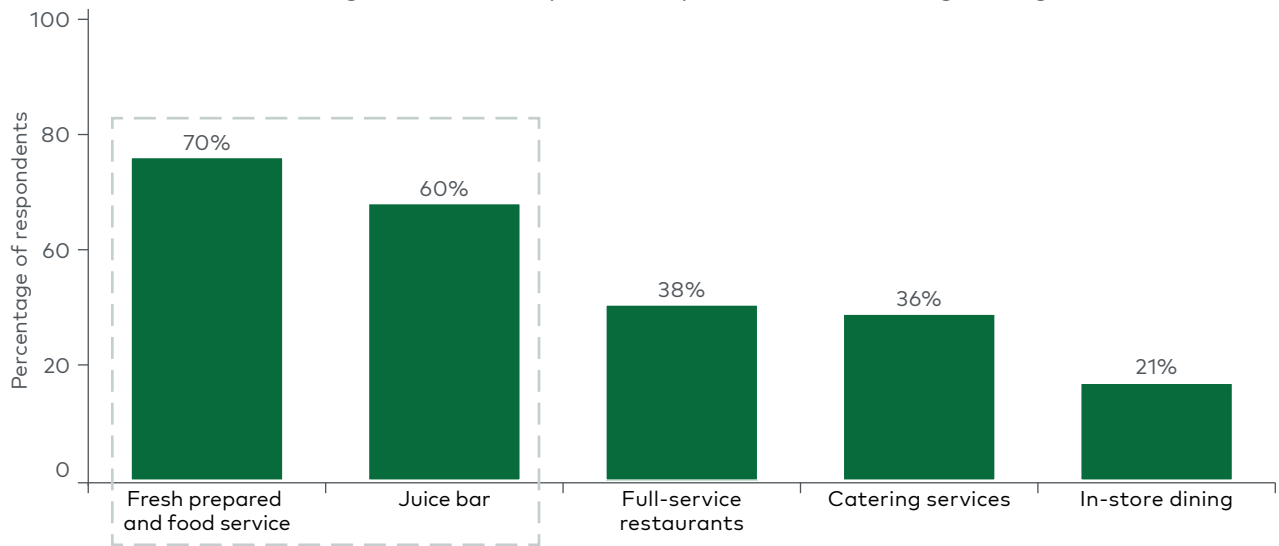
New grocery chains like Dom's Kitchen & Market are doubling down on the demand for FPF.⁴ An upscale grocer, Dom's provides expansive fresh prepared food offerings, a wine and coffee bar, and indoor and outdoor seating to enjoy meals and drinks. It opened its second location in Chicago in November 2022 and plans to open 15 new locations by 2025.

More established grocery chains are also taking notice: Schnuck Markets, a Midwest grocery chain with over 100 locations, plans to increase partnerships with local restaurants that started during the pandemic to offer grab-and-go entrees.⁵ Sixty percent of food retailers also cited success with juice bars, highlighting an additional avenue for differentiation.⁶

Other strategies such as full-service restaurants, catering and in-store dining did not prove to merit investment, as only 38%, 36% and 21%, respectively, of respondents claimed to see success with these offerings.⁷

Figure 2

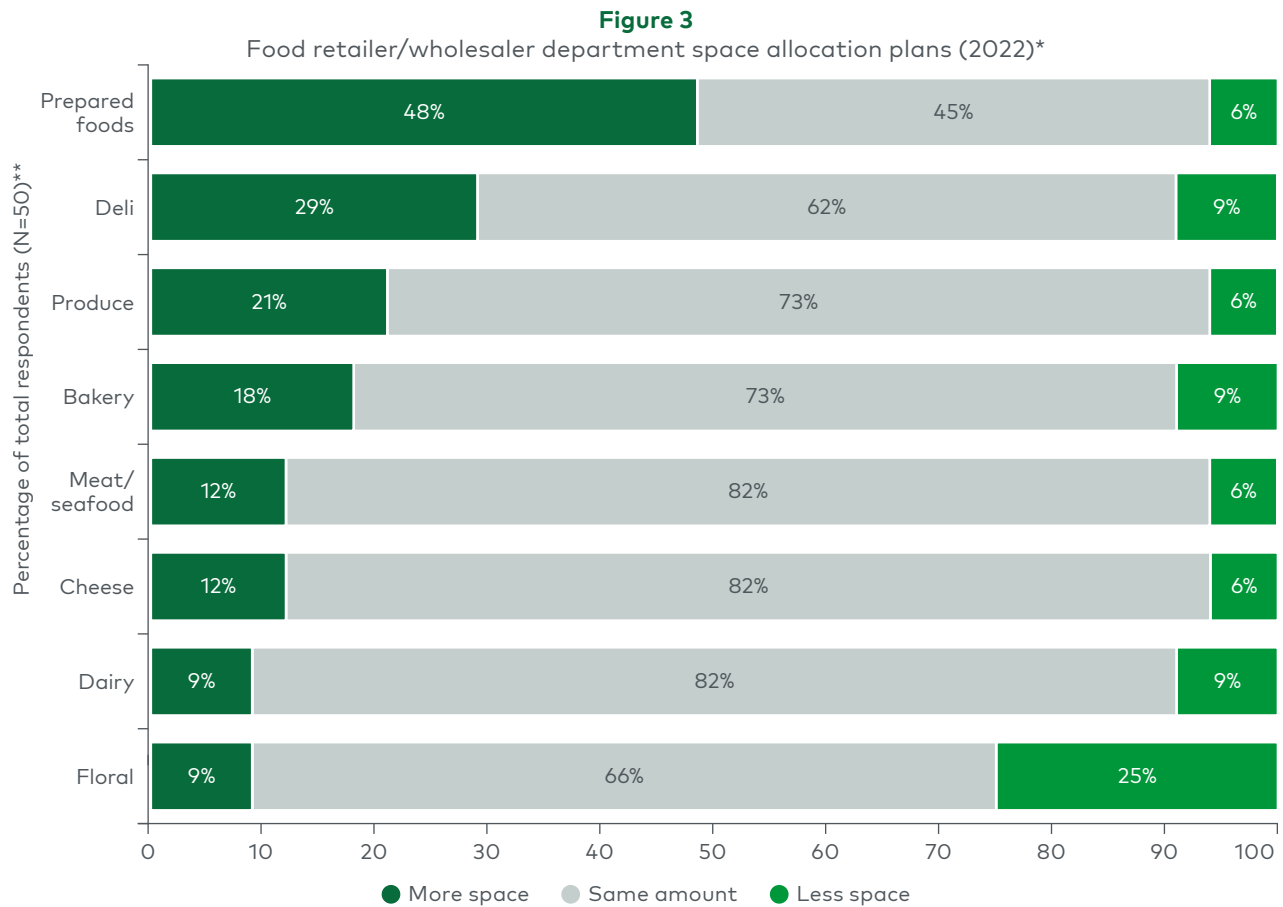
Food retailers citing success with implemented product differentiating strategies (2022)



Source: Food Industry Association (FMI), Grocery Dive

Recent successes and tailwinds from shopper preferences and macroeconomic factors are leading food retailers to allocate additional space, enhance offerings and increase staff for FPF, including grab-and-go, chef-made-to-order stations and self-service.

In a survey of food retailers and wholesalers conducted by Supermarket News, an overwhelming 48% of retailers plan to increase space allocated to prepared foods (see Figure 3).⁸ The next-highest category is deli at 29%. In the same survey conducted a year prior, in 2021, prepared foods were also the highest-ranked category at 39%, underscoring the conclusion that food retailers believe prepared foods are here to stay.⁹



*Survey question: Compared to last year, are you devoting more, less or the same space to these departments/categories?

**Percentages may not add to 100 due to rounding

Source: Supermarket News

Analogs in other markets

Despite recent growth, the FPF market in the U.S. remains underdeveloped relative to international markets. Retailers in Europe have much better fresh prepared food offerings — a trip to a Tesco grocery store in London during the weekday lunch rush will find you surrounded by people deciding which affordable lunchtime “meal deal” they should try that day. Offerings range from ready-to-eat traditional British fare to ethnic meals to premium soups and salads. Compared to the U.S., online penetration of ready-to-eat meals is much more robust in the U.K.

Tesco tried unsuccessfully to enter the U.S. market in 2007 with a Eurocentric strategy of smaller stores and a plethora of ready-to-cook and ready-to-eat meals, which did not resonate with American consumers at the time. A second attempt may prove to be more successful as American consumer preferences for FPF are changing to match preferences from across the pond. More likely, however, existing U.S. grocery retailers will continue to take advantage of the long growth runway for FPF and build out that offering.

Similarly, Japan has a well-developed prepared foods market. Ready-to-eat or easy-to-prepare meals, known as souzai, are commonplace in grocery stores across the country. Given limited kitchen and refrigerator storage in Japan, a growing elderly population, and the large number of single-person households, individual- and small-sized packages are most common in this department.¹⁰

Today's competitive producer landscape

The FPF producer landscape is quite fragmented today, with retailers sourcing from a patchwork supply network. A national supplier that provides quality and consistency at scale is ideal — but less common — today. Most suppliers operate regional models, shipping refrigerated or frozen products within a set radius. Others act as commissaries with facilities dedicated to a handful of key accounts.

FPF producers tend to focus on specific categories like deli salads or ready-to-cook and ready-to-eat meals but expand as they scale. For example, Blount Fine Foods and Kettle Cuisine both started in premium refrigerated and frozen soups but added adjacent products to continue driving growth.

Across product categories, shelf life is a key decision factor for suppliers. Shorter-shelf-life products limit the delivery radius of an item and add operational complexity, which can challenge profitability. Longer-shelf-life items can be shipped farther, are more appealing to retailers due to reduced risk of shrink and generate production efficiencies in the form of longer runs.

While some products have inherently longer shelf life than others, most producers utilize specific technologies and/or preservatives to extend shelf life. Preservatives are a relatively simple way to extend shelf life but are perceived negatively by some retailers and consumers. Given this, many producers are increasingly turning to technologies such as high-pressure processing (HPP), modified atmosphere packaging and frozen shipping to extend shelf life. Many of these technologies also have a "kill step" that increases food safety and enables a clean label claim that appeals to consumers.





Levers that impact profit and growth

For FPF producers, the opportunity is ripe to thrive in today's convenience-friendly retail environment. To ensure success and maintain pace with demand, producers should consider several key strategic levers.

1. Embracing technical production processes to manage shelf life

Products with short shelf lives provide a unique challenge that is necessary to address. To manage them properly and compete effectively, companies need expertise in procurement, distribution and operations. Some products naturally have longer shelf lives; for other products, preservatives are generally accepted. For short-shelf-life products that cannot utilize preservatives, other technologies can be leveraged (e.g., retort, HPP and shipped frozen) to extend shelf life in a food-safe way, better serving national retailers with quality and consistency at scale (see Figure 4).

Figure 4
Technical production process strategies to extend shelf life (2022)

		Description	Impact on quality	
Increasing shelf life extension		Freezing	Food is preserved by keeping it at a below-freezing controlled temperature	Maintains
		HPP (cold pasteurization)	High pressure and cold water kill bacteria and extend shelf life; the absence of heat helps maintain original properties of the products	Maintains
		Hot-pack/cooling	Products are cooked at a high temperature, packaged and then cooled immediately using a cooling system	Maintains
		MAP	Composition of gases inside packaging is modified to extend shelf life	Maintains
		Retort	Steam or hot water cooks and sterilizes products inside packaging to extend shelf-life up to 30 days	Degrades
		Thermal pasteurization	Heat is used to kill bacteria and extend shelf life for liquid products	Degrades
		Refrigeration	Food is kept at a controlled temperature to preserve it and prevent the growth of bacteria	Maintains
		Sous vide	Primarily a cooking method in which foods are vacuum sealed and cooked underwater	Maintains

Note: HPP=high pressure processing; MAP=modified atmosphere packaging
Source: L.E.K. interviews, research and analysis

2. Focusing on product category selection

More is not always better – a narrower category focus with product depth can simplify operations. This will inherently reduce share-of-wallet potential, thus placing a greater importance on products that have naturally higher margins.

3. Identifying a geography and channel strategy

FPF producers that serve multiple regions can provide consistency and scaled procurement to national retailers and foodservice providers. For smaller FPF producers, the choice is between focusing on a concentrated set of customers or pursuing customer breadth (the former carries an enhanced customer concentration risk).

4. Pursuing automation and investment

Strong operators utilize high levels of automation and make investments in high-speed, sophisticated equipment to manage costs and improve margins. Currently, supply chain and manufacturing processes are a “Wild West,” but processes are evolving to better meet the needs of consumers and retailers.

5. Creating a strategic approach to new product development

To create a strategic “moat” while managing costs, FPF providers should develop a disciplined, structured and data-driven approach to identifying new offerings and evaluating current ones. Providers should also keep a close eye on profitability and know how to say no to customers when suggestions and requests don’t have business value.

Room for growth

The FPF market — high off several years of growth due to the pandemic and an increasingly busy consumer demographic — is expected to continue to expand, creating massive opportunity for producers and retailers. As the U.S. pursues European levels of FPF affinity, the industry will continue to pursue strategies for efficiency and success. With applied attention to considerations like shelf life, product categories and development, channel strategy, and automation investment, companies in FPF production face an open door of growth possibility.

For more information, please contact strategy@lek.com.

Endnotes

¹Lek.com, "Capitalizing on Opportunities in Fresh Prepared Foods." https://www.lek.com/sites/default/files/insights/pdf-attachments/LEK_Analysis_2_Fresh_Prepared_Foods.pdf

²Supermarketnews.com, "2022 Supermarket News Fresh Food Trends Report: Shoppers are back in stores and still eating more at home." <https://www.supermarketnews.com/consumer-trends/2022-supermarket-news-fresh-food-trends-report-shoppers-are-back-stores-and-still>

³Grocerydive.com, "Prepared foods are hot, in-store dining is not, report says." <https://www.grocerydive.com/news/prepared-foods-are-hot-in-store-dining-is-not-report-says/630787/>

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⁵Supermarketnews.com, "Schnuck Markets teams with local eateries to expand menu." <https://www.supermarketnews.com/prepared-foods/schnuck-markets-teams-local-eateries-expand-menu>

⁶Grocerydive.com, "Prepared foods are hot, in-store dining is not, report says." <https://www.grocerydive.com/news/prepared-foods-are-hot-in-store-dining-is-not-report-says/630787/>

⁷Ibid.

⁸Supermarketnews.com, "2022 Supermarket News Fresh Food Trends Report: Shoppers are back in stores and still eating more at home." <https://www.supermarketnews.com/consumer-trends/2022-supermarket-news-fresh-food-trends-report-shoppers-are-back-stores-and-still>

⁹Supermarketnews.com, "Grocery retailers moving forward in fresh food departments." <https://www.supermarketnews.com/consumer-trends/grocery-retailers-moving-forward-fresh-food-departments>

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