Chilled and frozen treats may not be household staples yet in China, but don’t rule out the possibility. Thanks to a new law, China is now fully open to foreign retailers and distributors—and the country’s 1.3 billion consumers represent a massive opportunity that global companies are looking to tap into. But in order to do so, they will have to quickly find solutions to one of China’s most pressing logistics concerns: the cold chain.

A consumer revolution is taking place in China as people change their eating habits and shopping patterns. While fresh foods have long been a staple, more people are putting a premium on speed and convenience. Supermarkets and fast-food chains are cropping up everywhere, and sales of consumer-ready frozen foods are burgeoning, from ice cream and frozen entrees, to vegetables, fruits, seafood and meats.

To meet this rising demand, manufacturers and retailers of temperature-sensitive products must move their perishable foods quickly, while emphasizing quality, safety, reliability and traceability. This is a real challenge in a country where the cold-chain infrastructure is plagued by one-function high-cost logistics service providers that typically operate in “silos.” Only 15 percent of products that should be temperature-controlled are handled this way today—a figure that stands in stark contrast to the 85 percent compliance with good cold-chain practices found in Europe and North America. China’s cold-chain infrastructure is fragmented, under-funded, and scrambling to keep up with soaring demand.

With several upcoming events, including the 2008 Beijing Olympics and the 2010 Shanghai World Expo, the need to move quickly is growing. As the world’s attention focuses on China, the government doesn’t want any problems.

But cold-chain logistics is not as simple as providing cold storage warehousing and a few refrigerated delivery vans. Companies must have—or have access to—an end-to-end efficient supply chain management process for cold food products. This includes temperature-controlled line-haul trucking, warehousing, local distribution and direct-store delivery. It must be supported by refrigeration technologies, advanced operating and
administrative systems, and a well-trained and supervised workforce. The infrastructure must also ensure food safety and meet all traceability requirements.

No single company can build a cold-chain infrastructure alone. It will require a consortium of capabilities, support of government authorities, and a governance structure that can manage the consortium and achieve an acceptable return for all stakeholders.

Designing the China cold chain

The market for cold-chain products in China is growing fast, but the rewards are reserved for companies that get it right. A.T. Kearney, in conjunction with a client, is helping to build a consortium of 20 or more companies (customers, operators and investors) to address these issues. Consortium members will oversee the design of a cold-chain infrastructure that meets Western standards and their own needs. Working together, member companies will address all links of the cold chain, with an emphasis on doing the following:

Consolidate and integrate logistics capabilities. Supply chains in China are overwhelmingly dominated by one-function logistics service providers, resulting in limited (if any) integration. Consolidation and integration are necessary and must result in increased service quality, decreased costs to serve, and an expanded geographic reach. While some might argue that consolidation is all that is necessary, in reality it is just the beginning.

Improve management, training and service orientation. Perhaps the largest comparative disadvantage for China today is its lack of skilled management talent. Qualified employees are scarce in China, which means it will require significant investment to train employees. Workers must develop a stronger focus on customer service, which requires investments to upgrade skills and capabilities through training, performance measurement, and continuous improvement programs. A shared investment will reduce the risk for all participants.

Implement technology to improve competitive advantage. Communications and IT systems in China are still limited in scope, depth and effectiveness. Throughout the logistics process, multiple handoffs occur and transactions are primarily paper-based. There is limited technology to support distribution facilities, receiving functions, inventory management, and in-store product movement. Success will depend on moving from paper to technology-based systems—both internally and externally with trading partners.

Ensure required infrastructure to provide end-to-end temperature integrity. A traditional challenge in China is getting product through “the last mile.” It usually takes multiple distributors with limited exclusivity regarding product or geographic service territories. This results in a lack of scale and leaves little money for proper equipment and facilities. Working with both Chinese and foreign equipment and technology providers will accelerate the process.

Develop and nurture required relationships for longer-term advantage. With government deregulation, a major bastion of protectionism is down. But a last one remains standing that cannot be as easily dealt with: local administration and bureaucracy. Most of China’s retail distribution is still in the hands of Chinese state-owned enterprises that send a product to the provincial distributors, which in turn sell to other local distributors and retailers. In many areas, the number of distribution layers increases, with each addition representing an additional 5 to 7 percent markup. To improve the existing situation, the government must become a key stakeholder in any business venture, directly or indirectly.

Future vision of the cold chain in China

With new diet and food purchasing habits, the stage is set for major changes in China’s food industry. How well companies adapt to those changes, particularly the logistics of temperature-sensitive food distribution, will determine their success in this market. By working together in a consortium, designing and implementing a cold-chain infrastructure, companies can speed the process, reduce their risk and ensure an acceptable return on their investment.

For more information about the A.T. Kearney consortium, please contact Jim Morehouse at james.morehouse@atkearney.com.

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