



 McLane's Custom Cold Chain Advantage
A McLANE WHITE PAPER

February 2009



INTRODUCTION

Delivering perishable goods safely and efficiently to retailers across the country is an enormous challenge.

- ❖ The complexities involved from a supply chain perspective to ensure product freshness, food safety and temperature storage throughout the entire delivery cycle—from loading/unloading, verification, sorting and storage to transport and presentation in the customer location—have greatly limited the opportunities for convenience store operators to take advantage of the growing demand for fresh products.

These companies—chains and independents alike—want to offer their customers healthier, fresher foods, but are limited in their ability to add perishable products with any kind of consistency and assurance for profitability. For retailers to be successful selling perishable products, they must work with a distribution partner that truly understands the unique and competitive environment that exists. They must have the flexibility to order the foods that best match their customers' tastes in manageable quantities that can be easily stored on premises, while meeting strict delivery schedules to maximize shelf life. Perhaps most importantly, retailers must also have the peace of mind that the foods they sell are safe.

McLane, a leading supply chain services organization with a long history of delivering perishable goods to specific clients and markets, has created an industry first with its custom cold chain solution. McLane has invested more than \$1 billion in a nationwide supply chain infrastructure that includes more than 2.5 million combined square feet of refrigerated and frozen space, as well as a modern fleet of over 2,000 multi-temperature trailers. This system also leverages a comprehensive, multi-step monitoring process that constantly measures, records and validates temperatures on the loading dock, in the distribution center, in transit and at the time of delivery.

McLane's custom cold chain solution represents the most advanced and complete supply chain service available for perishable goods, but it was also designed to be completely customizable to provide unprecedented value for even the smallest retail operator. This white paper explores the challenges facing convenience stores today and how McLane's cold chain solution and its unique FRESH on the GO™ program can give retail operators a turn-key solution for generating additional profits.

THE PROBLEM:



Challenges of Convenience Store Operators

Convenience store operators must stay in sync with their customers' evolving tastes while also finding innovative ways to boost their bottom lines. Industry data shows that offering healthy and fresh alternatives to conventional grocery food options—such as deli sandwiches, ready-to-eat salads and fresh-cut fruit—will enhance opportunities for adding incremental sales and profits. Although many savvy retailers have explored the possibility of offering fresh products, the challenges associated with offering them with any kind of consistency can be discouraging.

From a risk management perspective, retailers are reluctant to displace any existing items for ones that are untested in their stores. All the data supporting the popularity of fresh foods means nothing until it is proven to work with their specific customers. This means that retailers must reduce upfront costs and avoid any type of disruption to current operations until they determine what works and review the cost/benefit analysis.

Another critical challenge for convenience store operators is the limited amount of storage available. Simply, these smaller sites cannot accommodate large shipments because there is no place to store them. Finding suppliers that can deliver small shipments with the frequency required for perishable goods is often the single obstacle that prevents retailers from moving forward.

Finally, when the products do reach the retail site, they must be available and displayed in ways consistent with the promise of fresh foods. Fresh products also require an enhanced level of attention when compared with traditional packaged foods. The most attractively packaged salad in the world won't sell if it is displayed in the beer case. Retailers are interested in finding ways to integrate fresh products into their convenience store designs and layouts. Maximizing the time that fresh products are available for sale is critical, and success or failure starts with having a comprehensive plan for making it all work in a coordinated fashion.

Challenges from the Supply Side

Successfully delivering the type of service required to supply convenience stores with fresh food items on any scalable basis requires not only a massive, specialized infrastructure, but also a diverse set of tools and thinking. Aside from the obvious need to source and procure the freshest products from quality-focused, reliable suppliers, a distributor must also closely monitor every aspect related to temperature control and handling of those products from the time they leave a supplier's warehouse to the time they reach the retail site. For example, dairy products and fresh fruits and vegetables have unique and different requirements. And delivering perishable goods to different regions across vast geographies—where temperature and humidity can vary wildly and greatly impact the quality of the shipment—compounds the already considerable difficulties.

Finally, success for a distributor depends on flawless execution and the ability to do it all within a cost structure that creates opportunities for retailers to benefit from the exercise. The lower volumes typically sold through convenience stores are offset by the need for higher margins. Therefore, the wholesale costs must be in line with retailers' business requirements.

THE COMPLETE SOLUTION:

McLane's Cold Chain Supply System

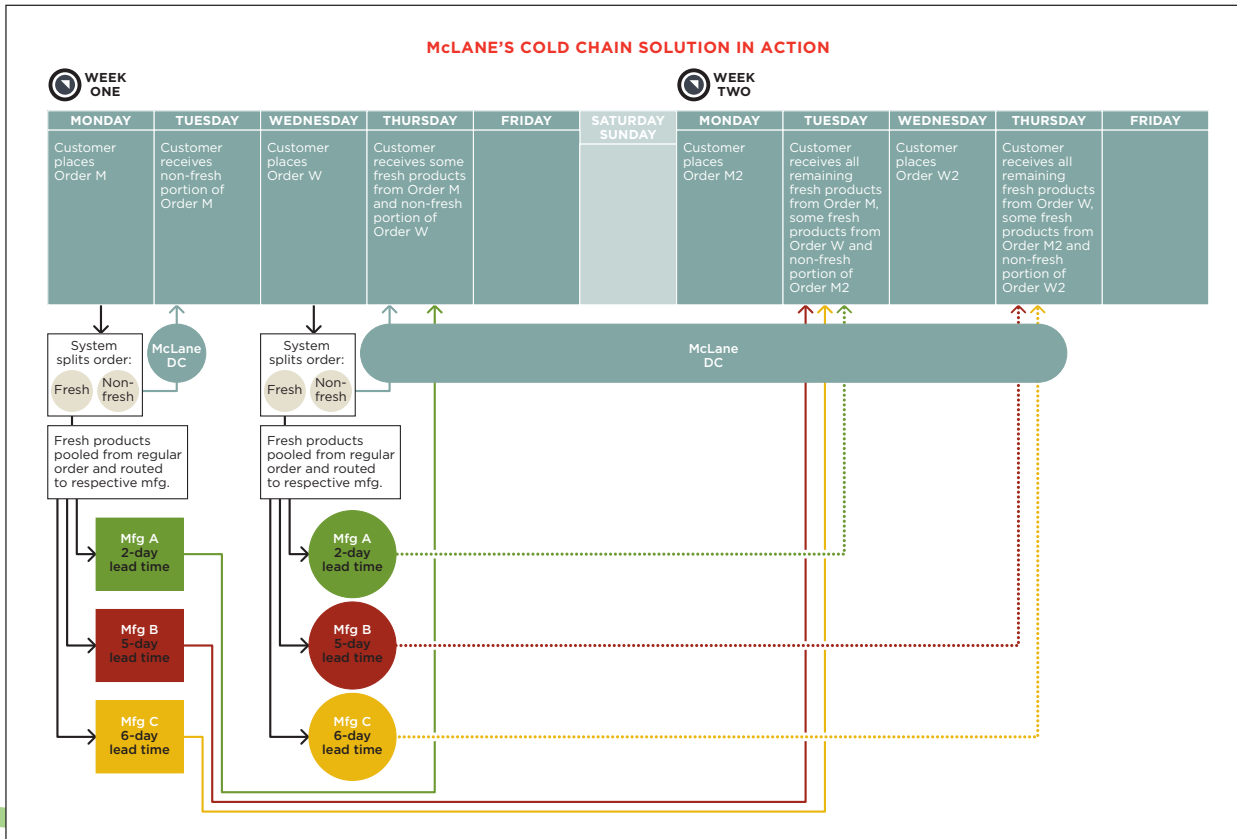
McLane has addressed the challenge of providing retailers with perishable products by creating the industry's first cold chain solution completely focused on the specific needs of convenience store retailers. The company invested more than \$1 billion in its nationwide supply chain infrastructure that included developing the most innovative and comprehensive cold chain service available. This custom solution was created to ensure the safest, most expeditious handling and delivery for the widest selection of fresh products available while also offering unprecedented flexibility for retailers (see chart below). And it is available in every ZIP code across the U.S.

McLane's custom cold chain solution expanded and upgraded its 20 modern distribution facilities—encompassing more than 8 million square feet of warehouse space with more than 2.5 million combined square feet of refrigerated and frozen space. Working with global food testing and consulting lab Silliker, McLane also implemented the industry's first independent audit of a cold chain facility to ensure the highest degrees of efficiency and food safety.

McLane now operates a fleet of more than 2,000 multi-temperature trailers to maintain proper

temperature while in transit. These units are configurable to handle the widest variety of perishable goods. The company even pioneered the use of specialized crates and cases for produce requiring extra care. McLane has also built a comprehensive, multi-step monitoring process that constantly measures, records and validates temperatures while the perishable products are on the loading dock, in the distribution center, in transit and at the time of delivery. Again, a third party independently audits every step to ensure the strictest adherence to the high standards outlined by industry experts.

With McLane's long history of supplying some of the largest retail chains in the country, it has been able to contract with manufacturers of name-brand items and exciting new products to offer convenience store operators the best opportunities to match customers' tastes and preferences. These agreements leverage McLane's unsurpassed buying power, translating to the best possible wholesale pricing. And the close proximity of McLane's 20 distribution centers keeps transit costs in check while ensuring that perishable products reach their destination with the maximum shelf life potential. These two factors mean that McLane can offer fresh products in a way that increases retailer margins.



FRESH on the GO:

❖ **A totally new fresh products program**

Based on McLane's unique cold chain solution, the company is offering a perishable food program called FRESH on the GO. This one-of-a-kind fresh products program was designed from the ground up with the convenience store retailer in mind. The program offers the widest variety of fresh products, including many healthy alternatives to conventional retail grocery food options, such as:

Deli sandwiches
Whole fruit
Fresh-cut fruit
Yogurts

Smoothies
Vegetable medleys
Natural fruit juices
Ready-to-eat salads

What makes FRESH on the GO different from any other perishable goods wholesale offering is its flexibility and full integration with existing McLane services. McLane's program does not require a minimum order in either product mix or quantity within this specialized category—a first in the industry. This means that retailers can test and change product offerings at will to ensure they land on precisely the right products and quantities that work for their stores and customers. Many FRESH on the GO products are new and unique McLane offerings, not replacements. By offering these new fresh products, retailers can cater to evolving customer tastes while enhancing opportunities for incremental sales and profits.

Retailers will also be excited to know that their FRESH on the GO orders are delivered with the same precision and reliability that has made McLane the preferred supply chain partner in the industry.

Although orders of fresh products are routed separately from regular orders—direct to the manufacturer for just-in-time processing—they arrive to retail in the same specialized temperature controlled semi-trailers used during McLane's regular delivery schedule. This one-of-a-kind procurement system helps ensure the freshest product availability and minimum storage requirement on the retailer's premises. Retailers will receive their complete orders on time and at the peak of freshness, ensuring the optimum subsequent shelf life.

Due to the limitations of refrigerated space on premises, McLane's comprehensive product selection boasts small case packs and/or single-sell solutions wherever practical. Plus, McLane offers a range of equipment solutions that employs innovative "air-curtain" technology to enhance the presentation of the retailer's fresh product offerings. This attractive equipment has proven to promote consistently higher impulse purchases.

Key benefits of FRESH on the GO:

Fresher products with longer shelf life—FRESH on the GO orders arrive at a McLane warehouse just before the next regular delivery, ensuring optimum freshness and subsequent shelf life

Widest variety of fresh products—Because McLane does not mandate that retailers carry a specific set of products, they can choose the fresh items that best match their customers' tastes

Shipping convenience—FRESH on the GO products are shipped with retailers' regular McLane orders, so they can avoid having extra trucks in their lots and additional delivery personnel in their coolers. Plus, McLane even offers a range of equipment solutions, employing cutting edge "air-curtain" technology designed to promote impulse purchases

Display options to fit individual stores—Designed with the retailer in mind, FRESH on the GO's comprehensive product selection boasts small case packs and/or single-sell solutions wherever practical

New incremental sales—Many products offered in the FRESH on the GO program are new and unique McLane offerings, not replacements for other items

Higher gross profits—McLane's nationwide reach allows for better wholesale pricing of fresh products, translating to better margins for retailers

THE FUTURE OF FRESH on the GO:

- ❖ McLane did not stop thinking about retailers' needs with the launch of FRESH on the GO. The company is focused on leveraging its investment and expertise in cold chain service to support its customers with an ever-evolving program. This evolution means that new fresh products and services are in development and will be communicated as soon as they are available.

With FRESH on the GO, McLane has gone above and beyond the industry standard, offering the best products, delivered in the best way—all adding up to a supply chain advantage that retailers can rely on.

To find out more about our custom cold chain solution or the FRESH on the GO program, call (800) 299-1401 or visit www.mclaneco.com/goto/fresh