

GLOBAL COLD CHAIN NEWS

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Cold Chain News reports operator and supplier assessments of the state of the UK market in 2013 for temperature-controlled logistics and transport

Editorial Office

Dean Stiles T: + 44 (0) 1304 228196
E: dean.stiles@globalcoldchainnews.com

Sally Nash T: + 44 (0) 1304 22819

Advertising and publishing

David Crawford T: +44 (0) 208 643 4948
E: david.crawford@globalcoldchainnews.com

Subscriptions and Administration Office

www.globalcoldchainnews.com
Tina Massey tel: +44(0)1326 560420
E: tina.massey@globalcoldchainnews.com

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Increased volatility poses a major challenge to the supply chain says Yearsley

Most of the major players in the chilled distribution market are confident about their own growth in 2013, while acknowledging the challenging economic climate and resultant volatility and pressure on margins. Many plan on buying new or replacement vehicles and some are expanding warehousing and spending on "green" initiatives.

Suppliers too are upbeat about growth, pointing to Euro 6 vehicles and the expectation that many logistics providers will update their fleets. Yearsley Group believes that the outlook

for 2013 is still tough, with margins under pressure, but expects to grow significantly this year.

"We have new capacity coming on stream at Heywood to satisfy the demand that we are seeing from customers who recognize the benefits of the scale and service that we offer," says a spokesman.

Challenges

Yearsley Group believes that there are two main challenges for 2013. The first is the on-going need to reduce the carbon footprint of the business.

"Whilst the consolidation model operated by Yearsley Group is inherently sustainable we are also continuing to invest in

renewable energy. Yearsley Group already has over 9,000 solar panels installed on its UK warehouses, but has already placed orders to install further panels and is also applying for planning permission for a wind turbine at one of its sites."

Volumes rise

The second challenge is the increased volatility in the supply chain that is a result of reduced lead times, increased order frequency, reduced inventory and increased promotional activity. "Volatility is a risk to both logistics companies, who can incur higher costs, and to their customers who can fail to achieve the availability required by their customers. This is particularly relevant in the retail supply chain and is one of the reasons why there is a trend for increasing concentration of retail stockholding in fewer and larger locations. The increased volatility can best be managed by a close relationship between the logistics provider, the customer and the retailer and it should be emphasised that the complete supply chain is only as strong as the weakest point, highlighting the need for a strong logistics partner."

Volumes will rise, says Yearsley, because the group offers the efficiency benefits of a national network but the quality of service inherent with a business that is still family-owned and controlled.

During 2013 Yearsley will have completed the refurbishment of the Hams Hall site, taken out of administration when operated by Partner Logistics, and the first phase of a 40,000 pallet extension at Heywood, Lancashire. There will also be a significant spend on new vehicles with up to 60 new units being purchased, plus ongoing investment in double-deck and urban trailers.

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“Somewhat surprisingly, we have seen that the recession has had a positive impact on the nature of relationships with customers”

Hugh Jones, commercial director, Grocontinental

Grocontinental's commercial director Hugh Jones says that the company is “cautiously optimistic” about the prospects for the progression of the temperature-controlled sector for 2013.

While the recession continues to have a negative impact on British business more generally, the food industry has, to some extent, been relatively recession-proof, says Jones. “That said, our business sector remains challenging. Somewhat surprisingly, we have seen that the recession has had a positive impact on the nature of relationships with customers. It has highlighted a real need for companies like our own to add value to the supply chain and increasingly become an integral part of customers' businesses.”

Investment needed

To facilitate this, it has been necessary to continually invest in infrastructure — warehousing, vehicles and systems technology to cement relationships and deliver exactly what our customers want, adds Jones. “In our own case, working with customers to also develop economical added-value solutions to accommodate specific needs has been key to our progression. It is a tough marketplace for companies operating in the temperature-controlled sector who have under invested as it's becoming difficult for them to compete.”

Grocontinental says that the two key challenges for 2013 are energy costs and pressure on rates.

“Energy costs will always be a challenge because of the major part they play in temperature-controlled storage; and secondly the pressure on rates as customers continue to drive down their own costs during the recession,” says Jones. “This means we have to constantly review our business and our costs base and work really smartly in everything we do.”

Grocontinental expects to see significant increase in storage volumes this year because of its ongoing investment programme. Over the last five years, the company has invested £15m in new facilities and vehicles.

During 2012 Grocontinental opened a new ambient store, accommodating 8,000 pallets, and installed five new ammonia-based blast

freezers, bringing the company's total daily freezing capacity up to 360 tonnes. “This spring we will complete a new 4,000 square metre warehouse to accommodate 13,000 pallets of frozen goods at a temperature as low as -28°C. The new warehouse will bring our total storage capacity up to 143,000 pallet spaces.” A number of multi-temperature trailers have recently been added to the Grocontinental fleet and during the second half of 2013 the company will renew its entire fleet of 62 tractor units to keep pace with the latest vehicle technology.

“With regard to margins, we anticipate that it will be challenging to maintain them at the current level,” says Jones.

Meanwhile Culina expects its temperature-controlled business to grow this year in terms of number of customers/contracts and volumes as a continuation of the growth

patterns it has experienced in recent years.

A spokesman says: “Last year we predicted, and then experienced, a move to shorter lead times for deliveries across all parts of the grocery sector to meet demands from retailers for so-called day-one-for-day-two deliveries — in other words orders placed on one day are delivered the next. Customers are also increasingly expecting value-added elements to their service above and beyond simple storage and distribution. For example, we now undertake repack and rework for a number of customers.”

Challenges

Among the many business challenges faced by the market Culina expects continued pressure to reduce costs and increase or maintain service levels. Retailers increasingly expect their suppliers to ensure orders are delivered correctly, to the full amount, at the

Logistics comment – NFT

Dale Fiddy, sales and marketing director, at NFT says that there are several industry topics that will affect temperature-controlled logistics this year.

With more competition, shoppers are becoming smarter about when and where they shop. Measuring on-shelf availability accurately, and responding to any problems quickly means retailers are challenging logistics partners on their in-store performance, as it is vital to keep shelves fully stocked.

Maintaining product availability is critical to our retailer customers and crucially, in chilled food, companies need to integrate demand and supply planning. Processes need to be reviewed continuously and the whole supply chain designed robustly to

give both short-term flexibility and long-term capability.

We expect to see a significant growth from online retail. Our retailer customers supply chains are adept at understanding moving products quickly through the online distribution network and having product formats that meet the needs of the supply chain.

To realise the online potential for retail customers, logistics partners will be challenged in many ways including data intelligence, flexibility of supply chain and responsiveness.

Successful logistics businesses will continually validate and monitor the data they hold and share with partners in order to avoid costly errors and inefficiencies.

- Companies need to integrate demand and supply planning to maintain product availability for retailers



right time, and with no damage and are prepared to apply penalties for under-performance, stresses the spokesman. "This places tremendous pressure on service providers and supply chain partners such as Culina. Costs are always an issue because the retail supply chain is incredibly competitive. Every stakeholder (retailers, supply chain service providers, food producers and others) needs to minimise costs so that prices remain competitive for the consumer."

Increased flexibility

Culina says that greater consumer adoption of online food shopping (most recently seen by a dramatic increase over Christmas 2012) could have interesting implications for supply chain operations which will increasingly need to be very flexible to ensure retailers can meet their online offers and commitments.

Customers (ie retailers and manufacturers) and consumers are also increasingly aware of issues surrounding sustainability and service providers need to demonstrate credibility in this area much more than in the past, says the spokesman.

Culina has continued to enjoy growth in recent years and expects this trend to continue during 2013. "Although chilled and temperature controlled still constitutes a major part of our business we have grown our ambient operations



Retailers are prepared to apply penalties for under performance. This places tremendous pressure on suppliers

significantly in the past year or so, not least through the 2012 acquisition of drinks logistics provider Cert Octavian. This means we can meet the total supply chain requirement of more producers and brands that have a mixed chilled/ambient portfolio from within our own resources. Margins are likely to remain tight due to the cost pressures and competition within the market."

During 2013 Culina will focus on consolidating existing operations and developing its total service offer to add even more value for customers and supply chain partners.

"We will do this by enhancing our complementary services such as co-packing, maximising network and transport efficiency to minimise vehicle movements

Supplier Comment: Thermo King

David O'Gorman, commercial director for Thermo King for the UK and Ireland

"Thermo King leaders expect to see further market growth in 2013, consistent with that experienced during 2012. During 2012, the industry saw growth in both the trailer and delivery van sectors. Over the last 12 months, Thermo King has expanded its customer base at a higher rate than market growth. Over the last 12 to 24 months, we have seen customers are now placing even more focus on fuel consumption and temperature management and control. Operators are seeking solutions that offer improved fuel efficiency, lower noise and improved ease of use for drivers and Thermo King continues to respond with solutions that address these needs. Thermo King continues to see outsourcing within the retail sector which is leading to consolidation among logistics providers. The growth of the pharmaceutical segment is also driving general market growth. Thermo King leaders have worked directly with pharmaceutical companies and their logistics providers

over the last 24 months to develop tailor-made solutions that meet the needs of this industry which has generated significant growth for us in this highly specialised segment.

"The growth of the pharmaceutical segment is also driving general market growth"

Many customers find that accessing affordable or in some cases - any - financing for new business represents one of their biggest challenges. Funding represents a key factor in increasing economic growth since there are opportunities for both despite the current conservative economic climate. The forthcoming Euro 6 legislation, which becomes effective in 2013, will offer new challenges regarding axle weights and cab dimensions in the

rigid truck segment. Since these new model trucks are not yet ready to go into service, the final impact of these changes are not yet clear.

I anticipate the same challenges in 2013 as those faced in the last two years. The market, however, is set for continued growth, with operators watching the bottom line while seeking new ways to deliver better value to their customers."



and road miles to support our own and customers' sustainability programmes, and continuing our proactive corporate social responsibility programme."

Culina is looking to expand existing facilities and/or add new depots to the network later in the year. Culina expects to have plans in place to enhance its market-leading technology systems to provide an even broader range of value added information and services to the company's customers and supply chain partners. Fowler Welch believes that 2013 could be a year of customer "churn", sparked by the drive for lower costs. Nick Hay, managing director of Fowler Welch, says that food manufacturers and competitors could struggle financially this year and this could throw up opportunities for the company.

"Some competitors are going to have a very torrid time in the next 12 months"

Nick Hay, Fowler Welch

"We're expecting probably more flux this year than last...if you just look at what's

happened with HMV, Dreams, Jessops ... a number of businesses on the High Street are struggling ... and we're expecting some more food manufacturing businesses to have a tough time," says Hay.

"The economic factors we're experiencing create flux within the market, such as volume shifting from one manufacturer to another.

"However, if you're a strong business we believe that creates great opportunities for you," says Hay. "Our ability to cope with a customer and support that customer is far greater than some of our competitors. Accordingly we feel we're in a very strong position to grow despite the difficult trading conditions...some competitors are going to have a very torrid time in the next 12 months.

"One of our competitors [Eddie Stobart] recently announced it is withdrawing from chilled short-life distribution and that's also going to throw up opportunities in time."

Hay believes that margin control is going to be a challenge for every company. "We're expecting some growth —not stellar growth but Fowler Welch will grow. It may be that we lose some contacts and win others; we're expecting a bit churn. Most customers are feeling pressure and trying to pass it on, we have to accept



Nick Hay at Fowler Welch expects more flux this year as customers change supplier more frequently

Supplier Comment: Carrier Transicold UK

Justin Grace, managing director, Carrier Transicold UK

"Economic uncertainty in Europe means challenging times for many transport companies, but fleets that focus on operating modern, robust and reliable equipment are most likely to come out ahead.

The first longer refrigerated semi-trailers entered service in 2012 as part of the Department for Transport's 10-year trial. We were actively involved in equipping some of the first 15.65m UK reefers, and we'll continue to monitor the performance of these systems in co-operation with our customers.

We are also seeing a renewed push by fleet operators keen to reduce road miles even further, by maximising payload potential on new vehicles. We're meeting the challenge by continued investment in developing products that are lighter, concentrate on lower total cost of operation and offer greater refrigeration capacity.

The need to remain competitive will continue to be a major priority for fleets in 2013, whilst also meeting increasing demands to reduce environmental impact, increase sustainability and, ultimately, making sure every



mile travelled is profitable. This means total cost of ownership has never been more important. Purchasing new equipment represents a significant financial commitment and customers need to make decisions based not just upon initial purchase price, but on fuel economy, product performance and servicing costs. At the same time, environmental considerations, after sales support and product reliability must be assessed in detail."



Fowler Welch expects to see growth of 25% in its ambient business over the next year

Supplier Comment: Gray & Adams

Peter Gray, sales director, Gray & Adams

Gray & Adams is optimistic about the year ahead. This is partly because we expect a number of customers who might normally have placed orders over the last couple of years, but have instead held back due to financial restraints, to finally return to the market and update their fleets.

We look forward to building on our reputation for innovation and will be presenting our radical new Dolphin rigid body in the Cool Pavilion when we return to the CV Show for the first time since 2008. In recent months we have also built Britain's first refrigerated urban double-deck trailers for West Midlands-based SPAR distributor Blakemore Logistics; a unique combination trailer (half milk tanker, half refrigerated container) for the UK's largest dairy company Arla Foods, and Britain's first 13.6m, 44-pallet lifting-deck trailers for, among others, Reed Boardall and Gist. We're conscious, too, that any extended-length semi-trailers still to be registered under the much-publicised DfT-backed trial, will have to be on the road by the end of 2013. Gray & Adams has considerable

experience and expertise in this field, having built numerous longer semi-trailers over many years for a customer in Saudi Arabia, and has won several high-profile orders over the last 12 months from UK-based operators. We are therefore confident of securing more orders for extended length semi-trailers in 2013.

"We expect a number of customers... to finally return to the market and update their fleets"

Gray & Adams built all 25 of Tesco's 15.65m semi-trailers. It has also built 15.65m trailers for DFDS and Morrisons, and 14.6m versions for FreshLinc, Langdons and MRCT. For Warburtons, meanwhile, Gray & Adams built a number of twin-deck 15.42m rear-steer semi-trailers. And it is currently building 15.65m semi-trailers with twin command steer axles and fuel-saving 'Eco-Aer' features, for vegetable company TH Clements.

at times that we might lose on price. The balance between price and service is critical and we believe we've got that right. Hay believes that the greatest challenge to the temperature-controlled market in 2013 is the stability of customer base. "The other thing to remember is we've got this flux in terms of competition within food manufacturers — the proportion of food sold on promotion is constantly changing. Retailers are trying to drive value by selling a promotion but how sustainable is that? This drives huge variations in terms of products. For example, if turkey goes on promotion at a retailer, do volumes of ham then fall? Hay says that a lot of volatility is driven by promotions, not in terms of gross volumes, but in terms of who is doing the volumes.

"We may well see a change in behaviour in this over next 12 months," adds Hay. Fowler Welch is replacing 142 trucks over the next 12 months.

"We will be early adopters of Euro 6," says Hay. "We will have 30 Euro 6 on the road in September and will be running those for nine months into 2014 before deciding which marque to use for the following year. We're definitely trialling MAN and Scania and Mercedes and hoping that Volvo and Daf will also be involved as well. Euro 6 is quite a big thing for the sector."

Fowler Welch expects to see growth of 25% in its ambient business over the next 12 months. The company has appointed a new general manager at its Heywood operation. Helen Broomhead will be joining this month (February). Sara Oliven, who joins from ACS&T, is now business development manager for the ambient business.

Caution

Unlike some of the other operators, Gist is more cautious about the sector's growth in 2013. Mike Flynn, business solutions director, Gist, says: "We are not seeing or expecting to see any significant growth this year beyond the normal population growth... in terms of tonnes of product being moved." One of the main initiatives this year will be trialling, through Gist's parent company The Linde Group, alternative refrigeration technology. "We're trialling a liquid nitrogen system — there used to be safety concerns but there have been significant engineering changes on that," says Flynn. "So we're trialling that on some of London vans and an artic — we expect it to be economically viable on trailers."

In terms of trends, Flynn believes that increased fuel prices will "be with us for a long period." Another trend for retailers is a move towards bigger/higher cube vehicles. Gist has come down on the side of taller vehicles. "Longer vehicles are a bit of a problem in terms of the turning circle which

Stobart exits short shelf-life chilled distribution

The New Year did not begin well for the cold chain sector with Eddie Stobart Chilled the first big casualty of 2013. The company announced that it was pulling out of short shelf-life chilled distribution. Some industry commentators have pointed to Stobart's lack of history and experience in the "challenging" chilled sector. One industry insider said that Stobart was "great at ambient" but struggled to succeed in chilled distribution. He puts this down to the fact that "chilled consolidation is tough", particularly in view of the very short lead times. Many short shelf life chilled manufacturers run their own distribution, including Dairy Crest, Arla Foods etc.

Stobart group chief operating officer William Stobart agrees with this analysis. To succeed in the short shelf-life chilled sector Stobart would have needed to rethink its network and vehicles, he says.

"To deliver two or three pallets to small users you need a network of small vehicles... but we were going round London with an artic which might only have had 10 pallets on it but needed five drops."

Stobart says that the greatest challenge was "getting load fill" and handling very short lead times on pallet deliveries.

However, he said that this part of the business (i.e multiple-user chilled delivery operations) only amounts to around "2.5-3% of the turnover of the total transport and distribution business". This is the part of the business that Stobart has "struggled with" since buying Innovate Logistics from the receiver for £1 in July 2008, Stobart says.

"We wanted to concentrate on the fresh side of distribution centres, and do the fuller loads, longer shelf-life products and chilled warehousing," Stobart says.

In October last year Stobart warned that the former Innovate operations had cost the group £4.2m in the first half of its financial year and warned that it was expecting to incur similar costs in the second half.



Gist continues to trial new technologies including cryogenics and expects taller rather than longer trailers



Mike Flynn, business solutions director, Gist, does not expect significant market growth this year

is not good in urban environments...our focus is on taller vehicles, we have an ongoing programme to put more double-deckers in etc."

Flynn says that Gist is concerned that tax exemptions in parts of Europe for red diesel, less expensive than standard road diesel, could be scrapped at some point. Economic problems in Europe have an impact on planning and sourcing, including the relative cost and availability of labour. It presents challenges for Gist, such as "where do we source our drivers from?" says Flynn.

Margins will remain under pressure, adds

Flynn. "Retailers are looking to keep costs down without sacrificing quality."

NFT believes that the depth and length of this recession will continue to be the key influencer of the industry this year. Cost reduction will remain at the heart of all strategies for the sector.

Dale Fiddy, sales and marketing director, at NFT says: "Food prices will continue to soar (especially after the terrible weather in 2012), as will rising raw materials costs. Further optimisation of the supply chain within temperature control is more critical than ever if retailers are to negate the need to pass on major price increases to customers. The question is, how to achieve this in a sector where procurement analysis over the last 10 years has stripped out any excess margins?"

Supply chain partners will need to 'think global' and 'work local' within their specialist areas more than ever before, says Fiddy. NFT has seen a number of competitors reduce margins to win business initially but believes this is financially unsustainable in the longer-term and a result of poor analysis.

NFT's approach is based on optimisation; reviewing a customer's entire supply chain, and finding out how NFT can add value to its current global operation.

"The depth and length of this recession will continue to be the key influencer of our industry this year"

Dale Fiddy, sales and marketing director

"Through collaboration of multiple networks, rather than shoe horning customers into a fixed infrastructure, we identify the optimum solution. We're leading the way in this field by investing in a specialist and dedicated NFT solutions team, backed by the latest bespoke planning systems. This gives us the capability to take supply chain optimisation to the next level. This is the key to unlocking any valuable inefficiencies. Our expertise extends far beyond, trucks and sheds, we are a pivotal strategic partner with the capability to shape future planning for all our customers. This is why we rightly claim to be the intelligent link between manufacturers and retailers. "Over the last four years NFT has seen gross revenues increase by 34% (circa 8% compound per annum).

And, despite the ongoing difficult economic climate, NFT fully expects this trend to continue based upon (but not limited to) the following key factors: clear strategy for growth financial strength providing a robust, reliable and stable platform for customers to focus on growing their businesses sustainable and realistic pricing creating long-term partnerships investments in: infrastructure, systems, people."

At the end of 2012, NFT expanded its Alfreton site by over 53%, including six new loading bays. The project cost £1.4m and significantly increased its capacity in the run up to Christmas.

Andy De'Vere, NFT warehouse operations director says: "The expansion means that we'll be able to provide an even better service for all our customers. It will help us to marshal our fridges better and to organise the layout of the warehouse to further streamline operations and speed up delivery times."

As part of NFT's five-year plan, the company carried out a strategic review of its operations over the last year in order to identify further efficiencies and optimisation opportunities. Historically, NFT's transport operations were run independently from its warehouse operations. Both parts of the business came together in February 2013.

"This restructure will result in improved visibility of product, increased capacity and a more effective supply chain, therefore improving the service to all customers," Fiddy says.



● NFT prefers collaboration with customers rather than shoe-horning into existing infrastructure

Norbert Dentressangle on the challenges of frozen food

Innovation will characterise the frozen and chilled food logistics market, says Dan Myers, director, Norbert Dentressangle's Food Business Unit. "What we see is far greater demand being placed on our customers in terms of supply chain requirements from retailers. We have to offer shorter lead times, typically day one for day one deliveries. "Customers in the current tough economic climate are endeavouring to reduce working capital, to reduce stock. So whereas in the past we had several weeks of stock we now have several hours of stock in store. "We have had to adapt and change our operations to meet these challenges. Our cost base is high with warehouses that are energy-hungry to keep frozen, and the same with vehicles. It is an expensive operation and in the UK there is also over

capacity so prices are stagnant if not falling despite inflation." Innovation is the key to survival, Myers says. Those innovations include investing in new technologies in refrigeration, warehousing and vehicles to reduce energy consumption and increase efficiency. "Operationally we are reducing manual intervention with increased automation. It is expensive but it is the right thing to do. And it does deliver a pay back. It also allows you to realise the service expectations of your customers. "Increasingly, order lead times are being reduced and customers are looking for proof of delivery as fast as possible. Solutions developed in the parcels industry, such as signature-on-glass as opposed to the old paper, are needed to achieve this," Myers says.

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Global Cold Chain News provides business intelligence reports with news and analysis about trends and developments in temperature-controlled logistics, transport, storage, and distribution of food, pharmaceuticals, and other temperature-controlled products nationally and internationally.

Editorial Office

Dean Stiles T: +44 (0) 1304 228196
E: dean.stiles@globalcoldchainnews.com

Marketing and Sales

David Crawford T: +44 (0) 208 643 4948
E: david.crawford@globalcoldchainnews.com

Subscriptions and Administration Office

www.globalcoldchainnews.com
Tina Massey tel: +44(0)1326 560420
E: tina.massey@globalcoldchainnews.com

Commercial Transport Publishing Limited

39a Meneage Street, Helston,
TR13 8RB, United Kingdom

Commercial Transport Publishing Limited

Registered in England and Wales
Company number: 6453302

Registered office: 6 Corunna Court, Corunna Road,
Warwick CV34 5HQ, United Kingdom

www.globalcoldchainnews.com