

October 2009



Safer Fresh Food for Asia's Shoppers

A call to action—executive summary



A study conducted for
The Coca-Cola Retailing Research Council Asia
by McKinsey & Company



The Coca-Cola Retailing Research Council Asia

The CRRCA is sponsored and facilitated by The Coca-Cola Company, and is populated with senior executives of Asian food retailing companies. The membership of this Council is as follows:

Mr. Long Chen
China Resources Vanguard Co., Ltd., China

Mr. Peng Chee Choo
Cold Storage Supermarket, Singapore

Ms. Jenny Lee
7-Eleven South China, China

Mr. Lou Jardin
IGA Distribution, Australia

Mr. Jeong Gy Baek
Bokwang FamilyMart, Korea

Mr. Lawrence Koh
Consumer Goods Forum Pty Ltd., Singapore

Mr. Sadashiv Nayak
Pantaloon Retail India Ltd., India

Mr. Chuan Nimkittikul
CP All Public Company Ltd., Thailand

Mr. Kian Peng Seah
NTUC Fairprice Co-Operative Ltd.,
Singapore

Mr. Pudjianto
Alfamart, Indonesia

Mr. Carmelito Regalado
Matahari Food Business, Indonesia

Mr. Paul Sheldrake
Wellcome, Hong Kong

Mr. Gwyn Sundhagul
Tesco Lotus, Thailand

Mr. Yoshitomo Suzuki
AEON Global Merchandising Co., Ltd.,
Japan

Mr. Bienvenido V. "Donnie" Tantoco III
Rustan Supercenters, Inc., Philippines

Mr. Tony Taylor
Wal*Mart Asia, Hong Kong

Mr. Ron Virta
Trust-Mart Capital Management (Shanghai) Ltd.,
China

The Coca-Cola Retailing Research Council Asia is facilitated by Council Research Director
Thomas W. Vadeboncoeur, Goodheart Resource, Inc., USA

about

The Coca-Cola Retailing Research Councils

Through The Coca-Cola Retailing Research Council, The Coca-Cola Company has supported independent research on the topical, important and pressing issues facing food retailers for more than thirty years. Launched in the US in 1978, then in Europe, Latin America and Asia, the Coca-Cola Retailing Research Councils have developed and published thirty-eight studies investigating the most pressing issues facing food retailers.

These studies are directed by retailers, for retailers, and for the benefit of the entire industry.

These focused research projects, undertaken in collaboration with major consulting firms under the direction of a dedicated Research Director together with the Council members, provide invaluable insights for immediate action and longer-term strategic planning for all retailers. Taken together, the body of knowledge produced by the Councils is unrivalled in the food retail industry, and provides an important guide for any journey into the rich landscape of future food retail.

In August 2008, Coca-Cola invited past and present Council members from around the world to Beijing to participate in a forum to address perhaps the most significant issue of the twenty-first century: environmental sustainability. The event engaged the collective expertise of over 150 of the world's leading food retailers. The result, known as the Global Retail Perspective, was titled *Sustainability in Retailing*.

All past and present studies conducted by the Coca-Cola Retailing Research Councils can be found on www.crrc.org.



The Coca-Cola Retailing Research Council Asia

Asia is home to many of the world's most dynamic retailers operating in a rapidly evolving environment. The Coca-Cola Retailing Research Council Asia is one of the region's significant research bodies dedicated to in-depth investigation of food retailing issues in a cooperative, non-competitive environment.

Since its formation in 2004, The Coca-Cola Retailing Research Council Asia has conducted and published two major studies and has played a critical role in providing blueprints for Asia's food retailer development and improved shopper satisfaction:

- The Fresh Imperative: Creating excellence in Asian Fresh Food Retailing, researched by Accenture; and
- Food Retail Formats in Asia: Understanding Format Success, undertaken by IBM.

"Membership of the Council has given me a unique perspective on the critical issues facing our industry" says Paul Sheldrake, Operations Director, Wellcome Hong Kong, member and current Chairman of The Coca-Cola Retailing Research Council Asia. "It has been extremely valuable to be part of this team of high performing retailers working together to address issues important to the future of the industry. Our objective has been to improve the way in which we serve all Asian consumers by putting shopper insights at the centre of our research, insights that we can all use in our businesses. It is a privilege to serve on the Council. A big thanks to The Coca-Cola Company for their creation and continued support of this important initiative."

Glenn Jordan, Pacific Group President of The Coca-Cola Company adds "We are extremely proud of the legacy contribution that the Coca-Cola Retailing Research Councils have made to the industry globally over the last 30 years. The food retailing industry is developing at a rapid pace within Asia. We are very committed to sponsoring and supporting the Coca-Cola Retailing Research Council for Asia as we feel it has a huge contribution to make to providing thought leadership in critical areas that will facilitate the advancement of the industry. Food safety is one such topic. I would like to thank the members of the current Council for their hard work, insight, and commitment to producing this excellent study."

Food Safety: Safer Fresh Food for Asia Shoppers

Food Safety issues have been top of mind for the industry over the past several years. Recent food safety breaches have emphasized the critical nature of food safety to the ongoing integrity and financial success of retailers both in Asia and globally.

This study, undertaken by McKinsey & Company under the direction of The Coca-Cola Retailing Research Council Asia membership, was commissioned in order to provide retail leaders with a road map for ensuring enhanced food safety and product quality in fresh food, from source to consumption.

"This study provides detailed insight into the strengths and weaknesses of food safety systems across different Asian countries and food categories," notes Long Chen, CEO of China Resources Vanguard, China and a member of the Coca-Cola Retailing Research Council Asia. "In particular, it reveals food safety as the single biggest risk issue for fresh food retailers across Asia. Food Safety strategy and execution must be a major focus for Retailer Leadership and their senior management."

The Coca-Cola Retailing Research Council Asia and McKinsey & Company

When undertaking a study of this magnitude the members of the Coca-Cola Retailing Research Council Asia seek the collaboration of a relevant management consulting firm. After an extensive review of options the Council members chose McKinsey & Company, whom they believed to be uniquely qualified to work with them on this study.

“We were delighted and honored to be selected by the Coca-Cola Retailing Research Council Asia to work with the members on this high traction issue, which is so pivotal to the advancement of food retailing in Asia,” said Todd Guild, a McKinsey director based in Asia. “We applauded the desire to create a simple road map that retail leaders could adopt within their operations to identify any potential food safety issues and rectify them accordingly. We were enormously impressed with the multitude of best practice initiatives undertaken by the Council member companies, which provide a rich resource to all food retailers as they seek to develop their practices in this area. I want to thank the Council members for giving us this opportunity and providing such rich input to the completion of this study.”

In Asia, McKinsey & Company has approximately 1,400 consultants deployed from 16 offices. McKinsey has worked with a large number of retailers in Asia, and has completed over 1,000 retailer engagements globally.



Safer Fresh Food for Asia's Shoppers

Amid the rich diversity of Asia's cultures and people, one common attribute stands out: a passion for fresh food. Think of the delicate taste of sashimi or the subtle variations of seasonal fruit in Japan, the tang of bibimbap in Korea, the robust flavors of wok-fried pork or stir-fried vegetable dishes in China and Southeast Asia, the glories of mangoes from India and the Philippines. For many Asian cuisines, the quality of the final dish hinges on the freshness of the original ingredients.

Asian shoppers go to extraordinary lengths to seek out freshness in the marketplace. Their devotion to fresh food creates enormous opportunities for retailers who understand that passion to build loyalty among their customers and equity in their brands. That same yearning for freshness, however, also creates big risks: the business consequences of spoilage or even a single food safety incident can be catastrophic. Thus, for retail CEOs in Asia, food freshness and safety is both critically important to the brand and a constant challenge.

This report lays out how Asia's retail CEOs can—and indeed must—play a more active role in setting and improving standards for food freshness and fresh food safety in the region. We set forth specific proposed steps Asia's retail CEOs can take to establish an active leadership role in improving fresh food safety. We highlight food safety “hot spot” priorities for markets, define how markets across Asia develop in a common evolutionary pattern, encourage greater CEO leadership and regional sharing of proven practices, and encourage retailers to adopt a mindset, both in-store and through the supply chain, to ensure fresh food practices keep up with Asian consumers' expectations for the world's best fresh food.

Our report offers a practical, prioritized set of actions that retail CEOs can begin to adapt and apply within their Asian markets to reduce the risk of food safety incidents. We discuss how retailers can lead the charge and personally drive initiatives to improve freshness and food safety by adopting a more influential stance, not just with their employees, but across their supply chains, and with regulators and consumers.

Building loyalty and brand equity through the fresh offer

Fresh has always been at the top of the agenda for grocery retailers. Consumers in markets across the globe consistently rank good fresh offerings as central to their store selection.¹ Retailers know intuitively that the category drives traffic and enhances consumer loyalty. Retailers strive to differentiate retail formats through their fresh offer, delivering higher quality or better pricing for fresh items, emphasizing healthier fresher choices, and adding more in-store theater to the fresh aisle. Retailers throughout Asia understand the linkage between fresh categories and customer loyalty, and that expanding their customer base and building brand equity start with delivering the best fresh offer possible.

Yet a single failure along the food supply chain can create safety problems that can spread unpredictably and lead to catastrophic food safety breaches. One major incident can generate recalls and tragic results—including incalculable damage to a retailer’s brand and reputation, with no guarantee of recovery. Long-term food safety improvement demands systemic change across a wide swath of industry participants—change that demands a level of influence only retail CEOs can deliver. Encouragingly, our findings suggest that proactive, right-minded leadership more often drives the sweeping change required than do costly investments.

Three primary threats to fresh food safety

Our work identified three primary food safety threats that retailers should work to contain across their supply chains. Residual chemicals, microbe contamination and spoilage, and veterinary diseases are the common enemies Asian markets face in the battle for fresh food safety [see exhibit 2-1 on page 24 of the full report]. While the dangers these primary threats pose can never be eliminated, they can be contained by managing risk and improving incident response. Just one failure across the entire supply chain is enough to compromise fresh food safety. To effectively manage and continually improve fresh food safety, retail leaders need a management framework that covers the entire supply chain from farm to checkout. In this report, we introduce a Fresh Food Safety Management Framework retail CEOs can use to assess current performance both in-store and across their supply chain, compare what they are doing against key competitors or retailers in other markets, and identify and prioritize the steps needed to achieve the highest food safety levels [exhibit 1].

Retail CEOs driving change are embedding more than best practices—they are moving to instill a new mindset and culture around freshness and food safety

¹ McKinsey's Global Retail Practice.



Prioritize actions using the Food Safety Management Framework

Food Safety Management Framework

✓ Where retailers set standards and ensure compliance
 ○ Party responsible for executing against standards

What to manage	Description	Producer	Supplier	Logistics	In store
A Upstream management	• Selection and management of producers and suppliers; enforcement of certification standards	✓	✓		○
B Growth control	• Management of producer practices, including use of chemicals, quality of feed, and disease control	✓			
C Product environment	• Management of product storage environment, including temperature, humidity, and hygiene	✓	✓	✓	○
D Product flow	• Management of supply chain speed and efficiency	✓	✓	✓	○
E Monitoring and inspection	• Review of measures to avoid contamination, and monitoring	✓	✓	✓	○
F System integrity	• Embedding of fundamental food safety culture and management	✓	✓	✓	○
G Issue management	• Actions taken once issues are reported, and efficiency of those actions	✓	✓	✓	○

Source: McKinsey analysis

The common evolution of Asian countries and markets

Importantly, we found that all markets in Asia evolve in a common predictable way, relative to improvements in fresh food safety, based on evolutionary elements such as basic water and sanitation infrastructure. Retail CEOs have a central role to play in advancing government policies that accelerate this evolutionary development. Australia, Japan, and Korea, for instance, have successfully achieved higher levels of food safety than other Asian countries by leveraging active retail leader support. Less developed countries, by contrast, lack some or all of these requirements, and, as a consequence, their ability to ensure food safety is more limited [exhibit 2].

Asian countries can be grouped by stage of market evolution

■ Good ■ Moderate ■ Poor

Requirement	Emerging				Developing				Developed		
	India	Indonesia	Philippines	China	Taiwan	Thailand	Hong Kong	Singapore	Korea*	Japan	Australia
1 Basic water and sanitation	Poor	Poor	Moderate	Moderate	Moderate	Good	Good	Good	Good	Good	Good
2 Standards, regulations, enforcement	Poor	Poor	Poor	Poor	Moderate	Moderate	Moderate	Moderate	Good	Good	Good
3 Cold chain infrastructure	Poor	Poor	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Good	Good	Good
4 Producer and supplier sophistication	Poor	Poor	Poor	Poor	Moderate	Moderate	n/a	n/a	Good	Good	Good
5 Aware and active consumers	Poor	Poor	Poor	Poor	Moderate	Moderate	Moderate	Moderate	Good	Good	Good

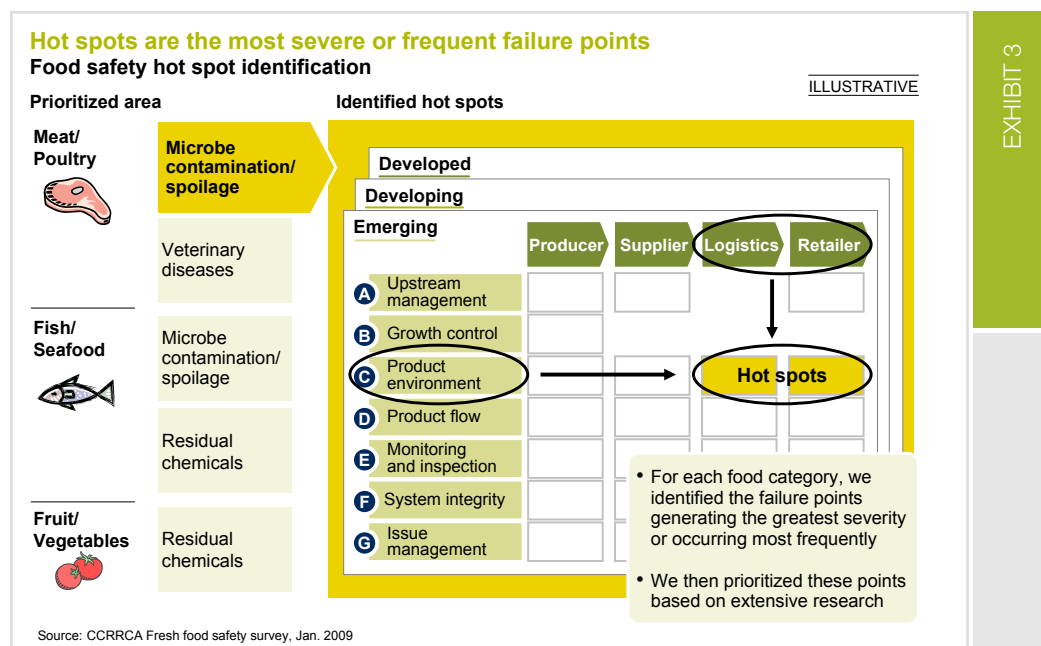
Source: McKinsey analysis

Retail CEOs can do far more to engage with and learn from other markets. Reaching across markets, they can learn and adopt the proven practices of retailers in neighboring countries at similar stages of development, and configure their fresh food safety practices to fit their own market context.

Focus on the “hot spots”

Retail CEOs can drive rapid improvement in freshness and food safety by prioritizing and addressing the biggest risks, what we call the “hot spots.” They should clarify and rigorously focus on these priorities—this is about leadership, not cost. In countries at each stage of development, different failure points generate the greatest food safety risk. We encourage retailers to be proactive in devising a plan of action to manage these food safety hot spots. Retailers should focus on these priority hot spots, since doing so will lead to the most rapid food safety improvements [exhibit 3].

Improvements more often emerge from proactive, right-minded leadership than from costly investments

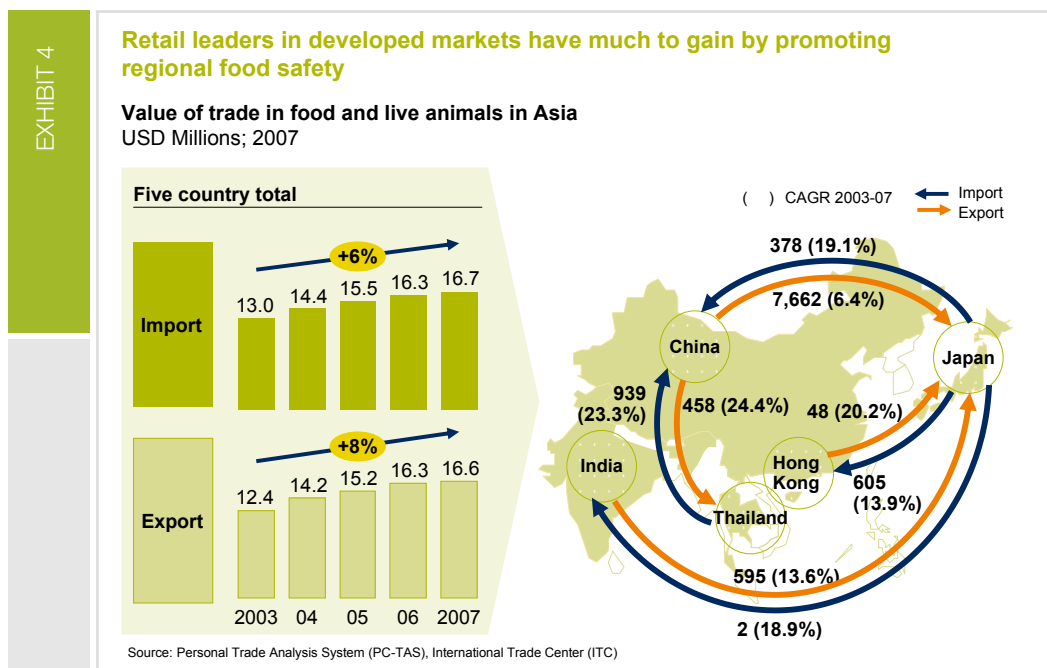


Retail CEOs in countries at each stage of evolution need to set priorities among the various hot spots and adopt, revise, and implement the practices of leading retailers [see exhibit 4-2, page 42 of the full report]. But there is a larger message: the retail CEOs driving change are embedding more than best practices—they are instilling a new mindset and culture around food safety in their stores and throughout their supply chains.



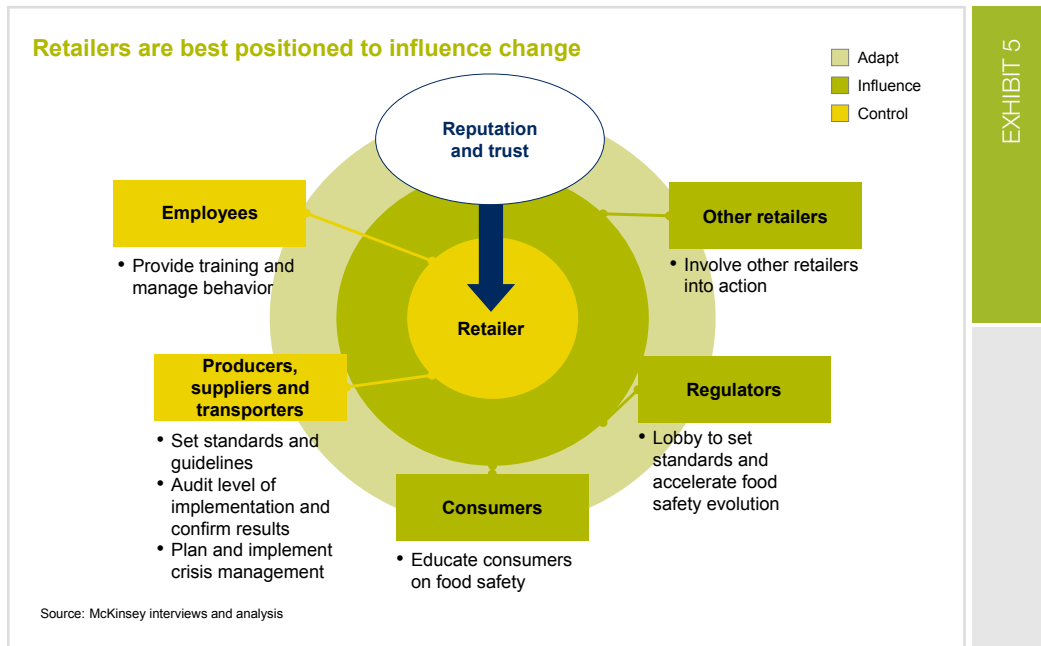
Shaping the future of fresh food

By exercising their influence, retail CEOs can generate significant change in their store operations, in their supply chains, and in their country's level of freshness and food safety. Retail leaders in markets at each stage of development can encourage producers, processors, and transporters to adopt proven practices and improve fresh food safety throughout their supply chains. And because regional interdependence is on the rise, retailers in developed markets can also lead cross-border initiatives to enhance food safety throughout the region [exhibit 4]. We encourage retail CEOs to take this more active role, and guide and influence other participants in the fresh food supply chain to shape the future of food safety in Asia.



A call to action

Retail leaders can protect and strengthen their brand and reputation for freshness and trust by making an immediate, sustained shift from a defensive to proactive stance in their leadership on fresh food and food safety. CEOs must instill a mindset and culture that recognizes how crucial freshness and food safety are to reputation and trust. They must develop action plans that go beyond their own employees to include upstream supply chain partners, regulatory agencies, and consumers [exhibit 5].



We recommend deliberate steps retail CEOs can take to embed fresh food safety practices in stores and accelerate the adoption of proven practices throughout their supply chains [see exhibit 6-2, page 70 of the full report].

How to use this material

We encourage you to treat our collected research as a thought starter, to generate full and thorough examination and analysis of your own situation; refer to the report repeatedly, jot observations and ideas in the margins, fold pages that seem helpful to your unique situation.

The examples within are given to provide helpful illustration of problems that can be encountered, but should not be considered a guide to steps to be taken by any retailer without conducting a complete and detailed review with specialist assistance.











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