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Understanding the Challenges and Constraints Within the Cold Storage Supply Chain

Pre-Pandemic Challenges

The good old days ... but the 3PL cold storage industry was already heading for trouble! COVID-19 hit us with a truckload of challenges, but pre-pandemic, businesses and cold storage warehouses were already adjusting to consumer shifts and emerging trends. The cold storage warehouse industry was significantly impacted by the growing demand for “better-for-you” products. As consumers prioritized health awareness and consciousness, they became increasingly focused on “clean-label options,” leading to a shift away from products with nitrates and chemicals. As a result, the cold storage facilities near USDA and FDA ports were constantly full, indicating a demand for products relying on colder temperatures, such as seafood, processed produce and grass-fed meats. And while consumer shifts present new opportunities, that also leads to challenges if there’s limited capacity within cold storage facilities.



The COVID-19 Impact on Cold Storage Warehousing

The pandemic unleashed unprecedented challenges to our industry. The shutdown across the foodservice industry resulted in large quantities of products, packaged specifically for foodservice, with no buyers. Simultaneously, reduced food manufacturing output (due to labor) struggled to cope with the surge in retail demand, leading to shrinking domestic food inventory. Some manufacturers bypassed cold storage facilities by opting for direct shipping to customers. Furthermore, warehousing labor shortages halted many high-labor services altogether. Essentially overnight, services such as repacking, tempering, catch weight receiving, and case picking were greatly reduced in availability.

Shifts in Consumer Demands

As the industry has started regaining momentum post-pandemic, manufacturers are streamlining their operations by eliminating high-labor and low-demand stock-keeping units (SKUs). Understandably, many of the changes we’re seeing in our own lives have carried over to cold storage warehousing. With COVID mandates and social distancing initiatives in place, people started purchasing more frozen and refrigerated food options that wouldn’t go bad as quickly as fresh fruits and vegetables, for example. With stimulus checks, some individuals and families even added the amount of cold storage they keep at home.

Suddenly, frozen foods weren't just focused on quick meals, frozen pizza pies and desserts. Consumers wanted increasingly unique and healthy options, and manufacturers pivoted to meet demand. Preferences shifted toward further processed frozen fruits and vegetables, higher-quality frozen pizzas, a wider variety of ethnic foods, and increased interest in "better-for-you" products. Nutritional density, ease of preparation, and food waste concerns became top priorities for consumers. Companies have certainly picked up on this.

Remember when cold storage was only one aisle at the grocery store? Now, some national chains are reconfiguring their stores so that at least 25% of their aisles cater to frozen or refrigerated temperatures. Queue cold storage warehouse facilities working harder to meet these demands ...

Supply Chain Challenges – The Current Landscape

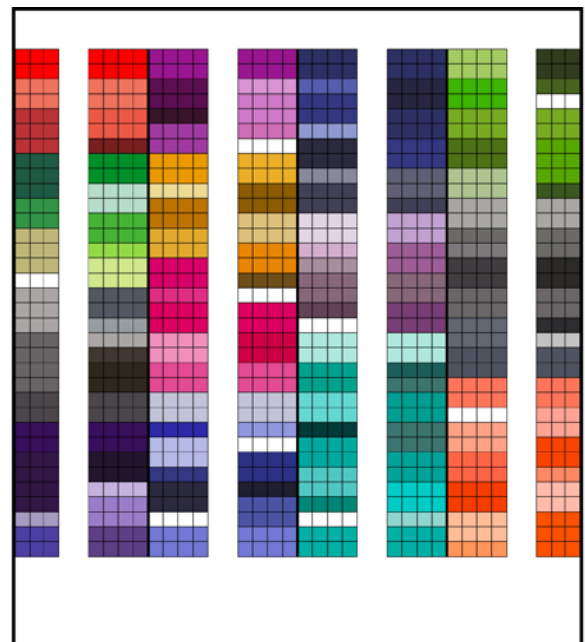
Cold storage facilities and warehouses are adapting to their strengths, with setups tailored for specific supply chain channels. Bulk cold storage facilities focus on efficiently storing high-density pallets to support manufacturing, while distribution cold-storage facilities prioritize unique pallets to storage approaches and case picking to support retail chains. Because there's a big difference between the styles of facilities and their capabilities, choosing the right cold storage is crucial based on the specific needs of the supply chain.

| Distribution Cold Storage (last mile support) | Bulk Cold Storage (manufacturer support) |
|---|--|
| - Products and pallets are stored on a short-term basis | - Products and pallets are traditionally stored for longer periods |
| - Pallets are placed where there's available space within the facility | - Inbound lots are stored all together in "bays." |
| - Facilities might offer order fulfillment, packaging and mixing products | - Trucks keep rolling in and out faster, due to like products stored together. |



TRUCK DOCK

WAREHOUSE A
Distribution Cold Storage



TRUCK DOCK

WAREHOUSE B
Bulk Cold Storage

At a time when cold storage space has been challenging – especially as Q4 is busy between holiday season demands and planning for next year – knowing the specifics can offer peace of mind refrigeration for manufacturers, businesses and, eventually, consumers.

Space isn't the only obstacle to overcome, though. Labor has remained a challenge. Perhaps it's not crippling like during the pandemic, but highly skilled labor hasn't kept pace with the industry demands.

How Interstate Cold Storage is Responding to a Changing Landscape

Our team at Interstate Cold Storage is proactively addressing evolving food manufacturer needs through strategic infrastructure investments. Recent updates to racking and industrial refrigeration systems, along with planned improvements to the warehouse management system in 2024, showcase that ICS is committed to providing a highly customizable inventory tracking experience. The company's focus on retaining top-quality labor has ensured an average employee tenure of nine years despite a challenging labor market.



Our 2024 Outlook

We expect 2024 to present a slight reprieve in capacity challenges thanks to some new construction on the East Coast, as well as in distribution cities such as Atlanta, Chicago and Dallas. With interest rates having climbed and remaining high, as well as high costs of steel, concrete and material handling equipment, we foresee a slowing in new projects and developments. At this point, it feels as though the new buildings scheduled to open will be a temporary relief as frozen and refrigerated demand remains strong once again.

Over the next few months, Interstate Cold Storage is well positioned to support 2024 year-round frozen capacity for new customers located in the Midwest, as we have facilities in Fort

Wayne, Indiana, Napoleon, Ohio and Columbus. However, there are several new manufacturing facilities being built in the two states that have target openings in 2024, pointing to a tightening 2025. With those facilities coming online, that will contribute to increased demand for cold storage.

Additionally, the import/export markets pose additional uncertainties, with potential challenges arising from geopolitical conflicts, domestic strikes, and fluctuating currencies. These factors may drive more midwestern food production facility builds because the region serves as a cost-effective alternative to coastal construction.

ABOUT INTERSTATE COLD STORAGE

Established in 1973, Interstate Cold Storage is a leader in cold storage facilities, shipping and distribution, with a network of facilities strategically located across the Midwest. Headquartered in Fort Wayne, Indiana, ICS is a family-owned company with five locations and nearly 22 million cubic feet of refrigerated space. According to the International Association of Refrigerated Warehouses, ICS is a top 20 North American refrigerated warehousing company. The facility network currently supports temperature ranges from -15°F to 35°F with multi-room, multi-temp offerings. Interstate Cold Storage is a subsidiary of the Tippmann Affiliated Group and has two facilities in Columbus, OH; one in Napoleon, OH; and two in Fort Wayne, IN. For more information, call (855) 928-3973 or visit interstatecoldstorage.com.